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GUARANTEED LOANS TO AIRLINES

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HEARINGS  
BEFORE A  
SUBCOMMITTEE OF THE  
COMMITTEE ON  
INTERSTATE AND FOREIGN COMMERCE  
HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH CONGRESS

SECOND SESSION

ON

H.R. 10129

A BILL TO AMEND THE ACT OF SEPTEMBER 7, 1957, RELATING  
TO AIRCRAFT LOAN GUARANTEES

MAY 9 AND 10, 1962

Printed for the use of the  
Committee on Interstate and Foreign Commerce



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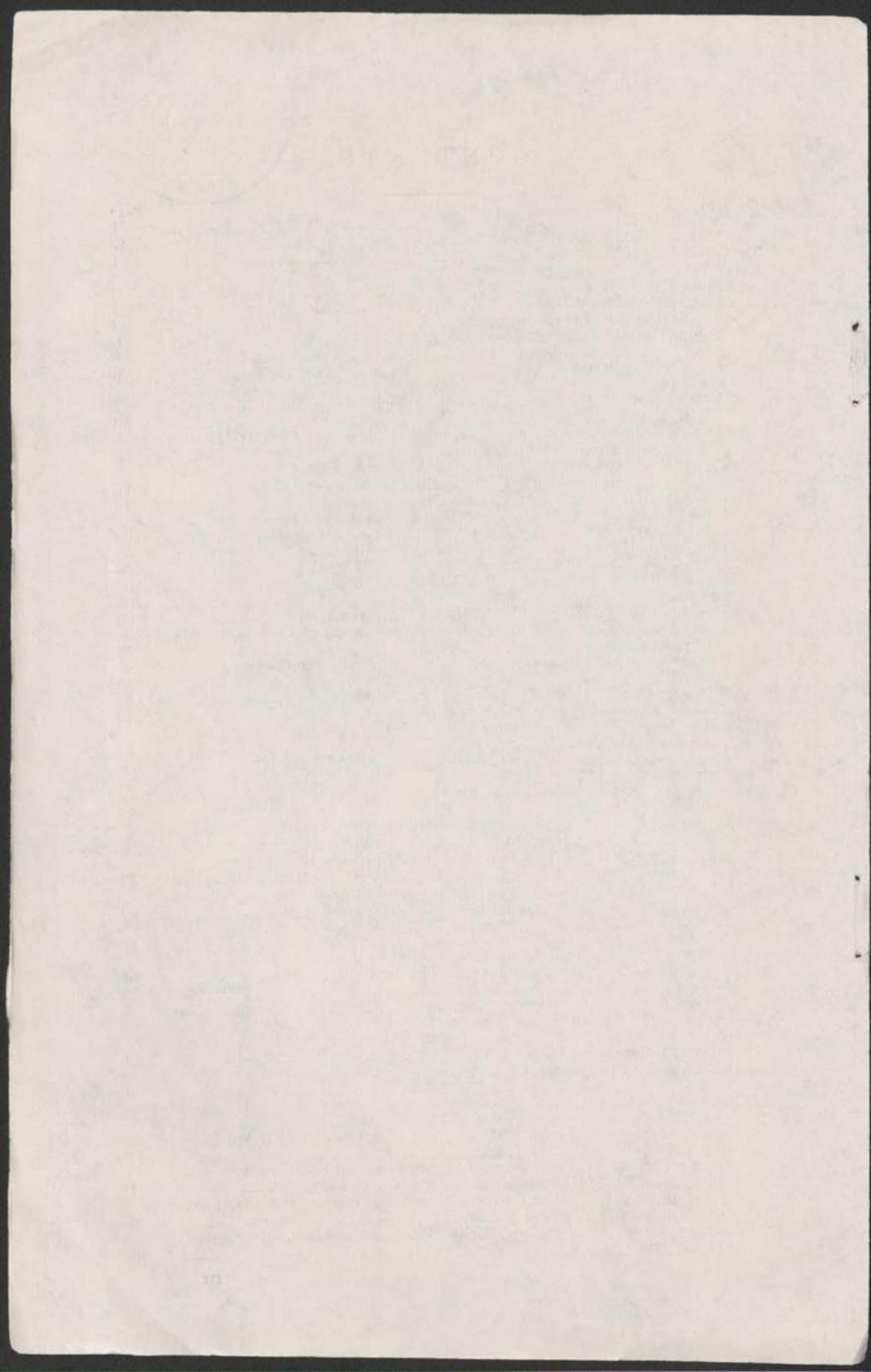
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## GUARANTEED LOANS TO AIRLINES

WEDNESDAY, MAY 9, 1962

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON  
TRANSPORTATION AND AERONAUTICS OF THE COMMITTEE  
ON INTERSTATE AND FOREIGN COMMERCE,  
Washington, D.C.

The subcommittee met, pursuant to call, at 10:20 a.m., in room 1334, New House Office Building, Hon. John Bell Williams (chairman of the subcommittee) presiding.

Mr. WILLIAMS. The committee will be in order, please.

This morning the Subcommittee on Transportation and Aeronautics is meeting to begin hearings on H.R. 10129, a bill to extend the act which authorizes a Government guarantee of private loans to certain air carriers to purchase aircraft.

The bill was introduced by Mr. Harris, chairman of the committee, at the request of the Civil Aeronautics Board. Without objection, the letter addressed to the Speaker requesting introduction of the bill and enclosing a statement of the need for the legislation will be included in the record at this point, followed by the bill, Public Law 85-307, and agency reports.

(The documents referred to are as follows:)

CIVIL AERONAUTICS BOARD,  
Washington, D.C., February 6, 1962.

HON. JOHN W. MCCORMACK,  
*The Speaker, House of Representatives,*  
Washington, D.C.

DEAR MR. SPEAKER: The Civil Aeronautics Board recommends to the Congress for its consideration the enclosed draft of a proposed bill to amend the act of September 7, 1957, relating to aircraft loan guarantees.

The Bureau of the Budget states that it is unable, at present, to advise as to the relationship of the proposed bill to the administration's objectives.

Sincerely yours,

ROBERT T. MURPHY, *Vice Chairman.*

[H.R. 10129, 87th Cong., 2d sess.]

A BILL To amend the act of September 7, 1957, relating to aircraft loan guarantees

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section 8 of the Act of September 7, 1957 (71 Stat. 629), is amended by striking out the word "five" and inserting in lieu thereof the word "ten".

### STATEMENT OF PURPOSE AND NEED FOR PROPOSED LEGISLATION

A BILL TO AMEND THE ACT OF SEPTEMBER 7, 1957, RELATING TO AIRCRAFT LOAN GUARANTEES

The act of September 7, 1957, authorizes Government guaranty of private loans to certain air carriers for purchase of aircraft. By the terms of the act this authority expires 5 years from the date of enactment.

The act authorizes the Board to guaranty loans made to local service and certain other air carriers for the purchase of aircraft to improve their service and efficiency, with the purpose of enabling these carriers to borrow the necessary funds on reasonable terms. Experience with the act has amply demonstrated that lenders, in order to obtain a guaranty, are generally willing to give more favorable terms than they would without a guaranty. A significant portion of the equipment modernization by eligible carriers, achieved during the life of the act, has been financed by guaranteed loans. As of December 31, 1961, a total of \$30,349,503 had been borrowed on such loans, with \$23,379,152 still outstanding at that date. These funds have been used to purchase (1) 33 twin-turbine engine F-27 aircraft, (2) 12 twin-engine (piston-type) Convair 340/440 aircraft, which can be converted to turbine power, (3) 3 twin-engine (piston-type) Martin 404 aircraft, (4) 5 single-engine (piston-type) Vertol 44-B helicopters, and (5) 1 twin-turbine-engine helicopter. Applications have been approved for one jet aircraft and three additional twin-turbine helicopters, the delivery of which will take place in the near future. Applications are now pending for the guarantee of loans for the purchase of eight twin-turbine helicopters, four CV-240's and two DC-6's.

Although much use has been made of the act, not all of the eligible carriers have been reequipped, and, in many cases, these carriers must acquire modern equipment if in the long run their subsidy needs are to be reduced. In the coming years it is anticipated that suitable new equipment will be offered for sale by manufacturers, and that many of the trunk carriers will be disposing of excellent equipment at reasonable prices. The development of air transportation would be delayed if the smaller carriers could not obtain loan guarantees when they cannot otherwise borrow funds to purchase this more efficient equipment on reasonable terms.

It thus appears that there will be need for loan guaranties during the foreseeable future; accordingly, the draft legislation in effect provides that the authority contained in section 3 of the act is extended for another 5 years from the present expiration date of September 7, 1962.

PUBLIC LAW 85-307, 85TH CONGRESS, S. 2229, SEPTEMBER 7, 1957

AN ACT To provide for Government guaranty of private loans to certain air carriers for purchase of modern aircraft and equipment, to foster the development and use of modern transport aircraft by such carriers, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That it is hereby declared to be the policy of Congress, in the interests of the commerce of the United States, the postal service, and the national defense to promote the development of local, feeder, and short-haul air transportation. In furtherance of this policy it is deemed necessary and desirable that provision be made to assist certain air carriers engaged in such air transportation by providing governmental guaranties of loans to enable them to purchase aircraft suitable for such transportation on reasonable terms.

SEC. 2. As used in this Act—

(a) "Board" means the Civil Aeronautics Board.

(b) "Aircraft purchase loan" means any loan, or commitment in connection therewith, made for the purchase of a commercial transport aircraft, including spare parts normally associated therewith.

SEC. 3. The Board is hereby authorized to guarantee any lender against loss of principal or interest on any aircraft purchase loan made by such lender to any air carrier holding a certificate of public convenience and necessity issued by the Board (a) designated therein to be for local or feeder air service, or (b) providing for operations wholly within the Territory of Hawaii, or (c) providing for operations (the major portion of which are conducted either within Alaska or between Alaska and the United States) within the Territory of Alaska (including service between Alaska and the United States, and between Alaska and adjacent Canadian territory), or (d) providing for operations within the Commonwealth of Puerto Rico (including service to the Virgin Islands and the Dominican Republic), or (e) providing for operations between Florida and the British West Indies (including service to Cuba), or (f) for the purpose of authorizing metropolitan helicopter service. Such guaranty shall be made in such form, on such terms and conditions, and pursuant to such regulations, as



the Board deems necessary and which are not inconsistent with the provisions of this Act.

SEC. 4. No guaranty shall be made:

(a) Extending to more than the unpaid interest and 90 percent of the unpaid principal of any loan.

(b) On any loan or combination of loans for more than 90 percent of the purchase price of the aircraft, including spare parts, to be purchased therewith.

(c) On any loan whose terms permit full repayment more than 10 years after the date thereof.

(d) Wherein the total face amount of such loan, and of any other loans to the same carrier, or corporate predecessor carrier or carriers, guaranteed and outstanding under the terms of this Act exceed \$5,000,000.

(e) Unless the Board finds that, without such guaranty, in the amount thereof, the air carrier would be unable to obtain necessary funds for the purchase of needed aircraft on reasonable terms.

(f) Unless the Board finds that the aircraft to be purchased with the guaranteed loan is needed to improve the service and efficiency of operation of the air carrier.

SEC. 5. The Board shall prescribe and collect from the lending institution a reasonable guaranty fee in connection with each loan guaranteed under this Act.

SEC. 6. (a) To permit it to make use of such expert advice and services as it may require in carrying out the provisions of this Act, the Board may use available services and facilities of other agencies and instrumentalities of the Federal Government with their consent and on a reimbursable basis.

(b) Departments and agencies of the Federal Government shall exercise their powers, duties, and functions in such manner as will assist in carrying out the objectives of this Act.

SEC. 7. (a) Receipts under this Act shall be credited to miscellaneous receipts of the Treasury.

(b) Payments to lenders required as a consequence of any guaranty under this Act may be made from funds which are hereby authorized to be appropriated to the Board for that purpose.

(c) Administrative expenses under this Act shall be paid from appropriations to the Board for administrative expenses.

SEC. 8. This Act shall become effective upon enactment, and the authority contained in section 3 hereof shall expire five years thereafter.

Approved September 7, 1957.

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C. May 9, 1962.

HON. OREN HARRIS,  
*Chairman, Committee on Interstate and Foreign Commerce,*  
*House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in reply to your letter of February 23, 1962, requesting the views of the Bureau of the Budget on H.R. 10129, a bill to extend the act of September 7, 1957, relating to aircraft loan guarantees for an additional 5 years.

While the Bureau of the Budget would not oppose extension of the loan guarantee program for an additional 5 years to carriers now eligible, it would be unable to support, on the basis of any evidence thus far made available, the expansion of this program to make other carriers eligible.

In his transportation message the President recommended transfer of responsibility for the aviation loan guarantee program, if extended, from the Civil Aeronautics Board to the Department of Commerce. The Bureau of the Budget strongly supports this change. If H.R. 10129 were amended to provide for the transfer of responsibility for the loan guarantee program from the Civil Aeronautics Board to the Department of Commerce, the Bureau of the Budget would have no objection to its enactment.

Sincerely yours,

PHILLIP S. HUGHES,  
*Assistant Director for Legislative Reference.*



FEDERAL AVIATION AGENCY,  
OFFICE OF THE ADMINISTRATOR,  
Washington, D.C., June 11, 1962.

HON. JOHN BELL WILLIAMS,  
*Chairman, Subcommittee on Transportation and Aeronautics, Committee on  
Interstate and Foreign Commerce, House of Representatives, Washington,  
D.C.*

DEAR MR. CHAIRMAN: Enclosed is a statement of this Agency's views on H.R. 10129, a bill which would extend the Aircraft Loan Guarantee Act of 1957 for an additional 5 years. In stating the Agency's position on this bill, we have also addressed ourselves to Senator Smather's amendment to the Senate companion bill (S. 2815) which would also make scheduled all-cargo carriers eligible for loan guarantees.

I regret very much the conflicting schedule which prevented me from testifying before your committee during its hearing on H.R. 10129.

Sincerely,

N. E. HALABY, *Administrator.*

STATEMENT OF FEDERAL AVIATION AGENCY'S POSITION ON H.R. 10129 AND S. 2815,  
BILLS TO EXTEND THE AIRCRAFT LOAN GUARANTEE ACT, AND SENATOR SMATHERS'  
PROPOSED AMENDMENT TO EXTEND THE BENEFITS OF THE ACT TO SCHEDULED ALL-  
CARGO CARRIERS

The act of September 7, 1957, which provides for Government guarantee of private loans to certain air carriers for the purchase of aircraft and equipment, was originally proposed by the Civil Aeronautics Board in 1956. The Senate committee, in reporting out the bill, stated that its purpose was "to enable the feeder and short-haul type carrier to purchase equipment that will result in an economical and profitable operation, and to encourage the development of a suitable aircraft designed for that purpose." We think it fair to state that this purpose has not been fully achieved.

The subsidy to local service carriers has increased from approximately \$24 million in fiscal year 1956 to approximately \$66 million in fiscal year 1962. Many factors contributed to this increase, such as extended routes and improved service to the public. The fact remains, however, that the local service carriers have not yet achieved "an economical and profitable operation."

Nor have any new aircraft been developed for local service use as a result of this legislation. When this legislation was under consideration, the Fairchild F-27 was the only new aircraft on the horizon for the short- and medium-haul market. That aircraft has since become operational and 35 of them are now in service.

While a critical evaluation of the legislation compels the conclusion that it has failed fully to achieve its stated objectives, nevertheless, the availability of Government guarantees has enabled the local service carriers to modernize their fleets, improve their service, and reduce operating costs. So long as the local service carriers remain on subsidy, it would seem to be in the Government's interest to improve their operations wherever possible through such devices as loan guarantees which, to date at least, result in no cost to the Government. For this reason, we favor extension of the act.

In supporting an extension, however, we should return to and focus rather sharply on the basic purposes of the act as originally conceived by the Congress. The act has not permitted the carriers to achieve economic independence; it has not provided the new aircraft envisioned. If we are to realize the original purposes of the act, clearly other steps must be considered.

As to the development of a new local service aircraft, we must quite frankly state that, at the moment, we do not know its specifications. Secondly, we do not know its cost, nor its market potential. Finally, we are not at all sure that a new aircraft, by itself, will assure a profitable, subsidy-free local service air transportation system. We suspect that more is required.

To permit us to resolve some of these questions, there has recently been established within the Agency the Aircraft Development Service. One of the Service's first tasks will be to study the feasibility of developing a local service aircraft. This study will embrace the aircraft's characteristics, its market potential, its possible military use, propulsion system, and design. Evaluation of this data will permit a reasoned decision as to whether and in what manner the Government should further proceed in encouraging its development. We would hope to present our findings during the next session of Congress.

If, in the next 3 years, aircraft tailored to the needs of local service carriers can be developed, we believe the Government's guarantee should be limited to loans for their purchase. Accordingly, it is recommended that the act be extended for only 3 years rather than the 5 years now proposed. This will permit reevaluation in light of aircraft coming into production at that time.

As indicated, we do not believe that the development of a new aircraft, regardless of its efficiency, will solve all of the economic problems of the local service carriers. The ultimate solution is not to be found in reduction of direct operating costs alone. What the industry must look to now is a reduction in indirect operating costs, such as reservation service, ticketing, baggage, and so on, as well as route structure. These are the most fertile areas for a breakthrough. The time afforded by a 3-year extension of the act will be ample to explore this frontier.

We have considered with great care the amendment to the Senate bill (S. 2815) proposed by Senator Smathers which would bring scheduled all-cargo carriers within the scope of the act. While we do not object to the amendment, it raises some serious questions which we believe the committee should consider before adopting it.

The guarantee by the Government of loans to private borrowers is an exceptional method of achieving national policies. It is not the norm. There is a strong national policy to encourage the scheduled local service carriers which at present are the principal beneficiaries of the act. The local service carriers and the metropolitan helicopter carriers both receive subsidies authorized by the Congress, a clear indication of Congress feeling that fostering local air service is in the national interest. Furthermore, operations within Hawaii, Alaska, or the Commonwealth of Puerto Rico pose special problems for the United States which deserve special considerations. One of the things that makes this country strong and contributes to the national integration of our distant States and territories is a fast, reliable transportation system promoting a free flow of persons and goods.

Entirely different considerations are involved in weighing the national interest served by extension of the guarantee loan benefits to scheduled all-cargo carriers. The Nation does not depend on them in the same manner or for the same reasons as it depends on the local service carriers. The service scheduled all-cargo carriers render is to a large extent also available from scheduled passenger carriers who carry freight, both in their passenger aircraft and in special all-cargo aircraft. In addition, a substantial amount of cargo, particularly under contract with the military, is carried by supplemental carriers.

Granting that the all-cargo carriers do contribute to the Nation's air transport system and national defense capability, we believe it is a basic and sound principle that they stand on their own, and that their operations meet the test of competition. It was this understanding that the Civil Aeronautics Board certificated these carriers.

One of the things about this amendment that troubles us is that it selects for benefits under the act only four of the many carriers which are engaged in cargo transportation. An analysis of the scheduled domestic all-cargo carrier operations for the year 1961 indicates that only about 20 percent of their revenues was derived from scheduled operations. The balance of revenues was derived primarily from military charter and contract work. This indicates that, from the standpoint of transportation services rendered, most of these carriers are quite similar to the 32 certificated supplemental carriers. This leads one to wonder whether the line distinguishing between the carriers eligible for benefits under the amendment and those not can be meaningfully drawn.

There is, however, a more basic problem. Loan guarantees have been advocated as facilitating improved emergency airlift capability, increased civil capacity for movement of military cargo in peacetime, and development of the air cargo market. If these are the objectives, it is difficult to argue against extending the act, not only to supplemental carriers but also to scheduled combination carriers. Certainly, substantial improvement in emergency airlift capability cannot be achieved by extending guarantees to only four carriers.

We do not, however, endorse extension of the act to the other classes of carriers. We believe all three classes should compete without special Government assistance. Failure to adhere to this principle, in time, may well lead to requests for subsidization of the marginal competitors. In any event, no case has been made that the trunk carriers require a guarantee in order to obtain financing. And certainly until the reevaluation of the supplemental carriers, contemplated

KANSAS STATE UNIVERSITY  
JUL 13 1962



by other legislation now before this committee, has been completed we believe extension of loan guarantees to such carriers would be premature, to say the least.

The Federal Aviation Agency strongly supported a cargo aircraft loan guarantee bill in 1960 (S. 2774). That bill was designed to encourage the manufacture of efficient, newly developed, modern cargo aircraft and to facilitate the acquisition of such aircraft by the carriers. Another principal motivation was the belief that the national security of the United States would be substantially strengthened if our civilian air carriers had available, and could make available during time of emergency, efficient powerful aircraft specially designed to haul large and heavy cargo.

However, circumstances have changed since 1960. U.S. airlines have acquired foreign-made turbine-powered cargo aircraft, the Canadian CL-44 and the British AW-650, and apparently these planes have proved to be satisfactory. Furthermore, the program to develop and build the Lockheed C-141 has commenced and, hopefully, this will give to the United States a specially designed all-cargo aircraft, as envisioned, suitable for both military and commercial use. Finally, both Boeing and Douglas will begin deliveries within the next year of cargo versions of the 707 and DC-8. The need for a guarantee loan program to spur development and increase the acquisition of modern cargo aircraft is this not as great as it was 2 years ago.

There were other provisions of the 1960 bill which are not included in this amendment—specifically, the requirements that the aircraft purchased be modern and found suitable for defense purposes, and that they be made available to the Department of Defense in times of war or emergency. Should the committee report favorably this amendment, we would urge that it include these requirements.

The Project Horizon report also dealt with this problem and is now being considered by the executive branch. The Agency's Aircraft Development Service has begun to determine how certain events occurring subsequent to the report affect its recommendations. Included in this task is a study of the extent to which the Canadian CL-44, which can be purchased with loans guaranteed by the Canadian Government, is meeting the needs of our present all-cargo carriers; also, the extent to which the proposed C-141 can be expected to meet those needs when it becomes available in 1965 or 1966. When the Horizon report was issued, no CL-44's had been delivered to American all-cargo carriers; since that time a substantial number have been put into service, and we propose to investigate just how efficiently they are operating. Also since that time, the C-141 has become a much more precisely described aircraft, and the DC-8 and 707 cargo types are close to reality. Any recommendation by this Agency to embark on a guarantee loan program to help purchase modern cargo aircraft for all-cargo carriers will depend in large part on the results of these inquiries.

In summary, the Agency endorses the extension of the act for an additional 3 years. At the end of that time we would propose a general review of the legislation in light of new aircraft then available and other developments which will lead to improved economy and financial independence of the local service carriers. Similarly, without objecting to the inclusion of the all-cargo carriers, we question whether a line can be meaningfully drawn between them and other carriers, whether their inclusion will give us any really significant improvement in the Nation's emergency airlift capability, and whether the bill can be expected to spur the development of any new cargo aircraft not already being delivered or being developed.

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THE SECRETARY OF COMMERCE,  
*Washington, D.C., May 9, 1962.*

HON. OREN HARRIS,  
*Chairman, Committee on Interstate and Foreign Commerce,  
U.S. House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to your letter requesting the views of the Department on H.R. 10129, a bill to amend the act of September 7, 1957, relating to aircraft loan guarantees.

The act of September 7, 1957, authorized Government guarantee of private loans to certificated short-haul air carriers for purchase of aircraft. By the terms of the act, this authority expires 5 years from the date of enactment. The purpose of H.R. 10129 is to extend the authority contained in section 3 of the act for another 5 years from the present expiration date of September 7, 1962.



H.R. 10129 was introduced at the request of the Civil Aeronautics Board. The Board, in proposing the bill, noted that although much use had been made of the act, not all of the eligible carriers had reequipped, and, in many cases, these carriers must acquire modern equipment if their subsidy needs are to be reduced in the long run. Extension of the authority under section 3 of this act for another 5-year period would provide a means by which the smaller carriers who have not as yet taken sufficient advantage of the act could obtain loan guarantees for the purchase of aircraft to improve their service and efficiency.

The benefits accruing from the loan guarantee program since its inception in 1957 have been measurable both to the carriers receiving the loans and to the traveling public. Under the act of September 7, 1957, no guarantee shall be made unless it is found that the air carriers cannot otherwise obtain funds needed on reasonable terms, and that the aircraft purchased are required for improvement of the service and efficiency of the operations of the air carrier. By reequipping, the air carriers are in a position to improve their operations by using aircraft that are efficient and can be operated at a lower cost per passenger-mile. The traveling public benefits directly from the operation of modern equipment that would not otherwise be operated.

If subsidy-free status is to be achieved, passengers must be attracted to the airlines. Yet without the proper equipment, a service that will attract passengers and thereby broaden the passenger base cannot be achieved. The carriers, in many cases, do not have the resources to break out of this circle and achieve self-sufficiency. It is recognized that loan guarantees are not a panacea, but they can be used as a tool by the carriers and the Government to improve the problem of subsidy. Without a doubt, subsidy cannot be reduced unless the carriers have a product to sell—namely, service. However, synonymous with the word "service" is the type of equipment that produces the service. The public has become sophisticated in its demands, and unless a type of equipment is used that will attract the traveling public, they will not use air travel to the extent that will make air carrier operations self sufficient.

The report by this Department on a similar Senate bill included comments on an amendment which would "render scheduled all-cargo carriers eligible to participate in the aircraft equipment loan guarantee program." The Department is of the opinion that the addition of certificated scheduled aircargo carriers, such as Riddle Airline, Slick Airways, Flying Tiger Line, and Seaboard-World Airlines to those carriers presently covered by the loan guarantee program would be in the national interest. Such a program could afford the scheduled all-cargo carriers the opportunity of obtaining aircraft designed for their special need. The Task Force on National Aviation Goals (Project Horizon) in its report stated, "While it is not clear that direct subsidization of cargo services is presently warranted, we are of the opinion that indirect aid should be provided in the form of Government support of aircargo transport vehicle development, the expanded use of aircargo service for mail and military cargo \* \* \* and guaranteed loan legislation, subject to the most detailed scrutiny \* \* \* of characteristics of the aircraft as an economic vehicle, before approval for such loans is granted."

The requirements channeled into this Department, as a result of its responsibility in the field of civil mobilization planning, indicate the need for increased cargo capability. A suitable aircraft that could be developed or purchased for the use of the scheduled all-cargo carriers would aid the U.S. aircargo capability to meet the civil and defense needs during an emergency.

In order to make it possible for the carriers to purchase the higher cost aircraft that are suitable for use in all-cargo operations, it is believed that the present limitation of \$5 million to any one carrier should be increased to \$15 million.

As the President pointed out in his message of April 5, 1962 on the transportation system of our Nation, if the loan guarantee program is extended it should be transferred to the Department of Commerce. This recommendation was based on the fact that this Department is a focal point for Government transportation activities and in the interest of program coordination these activities should be further consolidated. The Department in transmitting its legislative recommendations to implement the President's message, which was transmitted to the Congress on May 1, contained language which would transfer the loan guarantee programs presently administered by the Civil Aeronautics Board and the Interstate Commerce Commission to the Department of Commerce.

We are enclosing proposed amendments to H.R. 10129 which would extend the act of September 7, 1957 for another 5-year period, extend its coverage to include scheduled all-cargo carriers, increase the maximum allowable amount that can be guaranteed to any one carrier to \$15 million, and provide for transfer of the

loan guarantee function from the Civil Aeronautics Board to the Department of Commerce.

The Department supports enactment of this legislation if it is amended as we have recommended.

The Bureau of the Budget advises there is no objection to the submission of this report from the standpoint of the administration's program.

Sincerely yours,

LUTHER H. HODGES,  
*Secretary of Commerce.*

#### PROPOSED AMENDMENTS TO H.R. 10129, 87TH CONGRESS

Amend H.R. 10129 by adding the following new sections at the end thereof:

"SEC. 2. Section 1 of the Act of September 7, 1957 (71 Stat. 629), is amended by adding immediately after the words 'development of' in the first sentence the following: 'scheduled all-cargo and'.

"SEC. 3. Subsection (a) of section 2 of the Act of September 7, 1957 (71 Stat. 629), is amended by striking out the words 'Board' and 'Civil Aeronautics Board,' and inserting in lieu thereof the words 'Secretary' and 'Secretary of Commerce,' respectively.

"SEC. 4. Section 3 of the Act of September 7, 1957 (71 Stat. 629), is amended by:

"(1) Striking out the word 'Board' where it appears the first and third times therein, and inserting in lieu thereof the word 'Secretary'; and

"(2) Inserting the words 'Civil Aeronautics' immediately before the word 'Board' where it appears the second time therein; and

"(3) Striking the period immediately following the word 'service' at the end of the first sentence and adding the following: 'or (g) for scheduled all-cargo service.'

"SEC. 5. Section 4 of the Act of September 7, 1957 (71 Stat. 629), is amended by:

"(1) Striking out the amount '\$5,000,000' in subsection (d), and inserting in lieu thereof the amount '\$15,000,000'; and

"(2) Striking out the word 'Board' in subsections (e) and (f), and inserting in lieu thereof the word 'Secretary'.

"SEC. 6. Section 5 of the Act of September 7, 1957 (71 Stat. 629), is amended by striking out the word 'Board,' and inserting in lieu thereof the word 'Secretary'.

"SEC. 7. Subsection (a) of section 6 of the Act of September 7, 1957 (71 Stat. 629), is amended by:

"(1) Striking out the word 'it' where it appears the first time therein, and inserting in lieu thereof the word 'him'; and

"(2) Striking out the word 'it' where it appears the second time therein, and inserting in lieu thereof the word 'he'; and

"(3) Striking out the word 'Board' and inserting in lieu thereof the word 'Secretary'.

"SEC. 8. Section 7 of the Act of September 7, 1957 (71 Stat. 629), is amended by striking out the word 'Board' wherever it appears therein, and inserting in lieu thereof the words 'Department of Commerce'.

"SEC. 9. Section 410 of the Federal Aviation Act of 1958 (49 U.S.C. 1380) is amended by replacing the period at the end of the last sentence with a colon, and adding the following: 'Provided, however, That the provisions of this section shall not be applicable to the guaranty of loans by the Secretary of Commerce under the provisions of the Act of September 7, 1957 (71 Stat. 629), as amended, but the Secretary of Commerce shall consult with and consider the views and recommendations of the Board in making such guaranties'.

"SEC. 10. (a) All orders, determinations, rules, regulations, permissions, approvals, agreements, rulings, directives, and privileges which have been issued, made, or granted, or allowed to become effective, by the Civil Aeronautics Board, or any court of competent jurisdiction, under any provision of law amended by this Act, or in the exercise of duties, powers, or functions which, under this Act, are vested in the Secretary of Commerce, and which are in effect at the time this Act takes effect, shall continue in effect according to their terms until modified, terminated, superseded, set aside, or repealed by the Secretary of Commerce or by any court of competent jurisdiction, or by operation of law.

"(b) The provisions of this Act shall not affect any proceedings pending at the time this Act takes effect before the Civil Aeronautics Board; but any such



proceedings shall be continued before the Secretary of Commerce, orders issued therein, and payments made pursuant to such orders, as if this Act had not been enacted; and orders issued in any such proceedings shall continue in effect until modified, terminated, superseded or repealed by the Secretary of Commerce, or by operation of law.

"(c) The provisions of this Act shall not affect suits commenced prior to the date on which it takes effect; and all such suits shall be continued by the Secretary of Commerce, proceedings therein had, appeals therein taken, and judgments therein rendered, in the same manner and with the same effect as if this Act had not been enacted. No suit, action or other proceeding lawfully commenced by or against the Civil Aeronautics Board or officer of the United States, in relation to the discharge of official duties, shall abate by reason of any transfer of authority, power or duties from the Board or Commission or officer to the Secretary of Commerce under the provisions of this Act, but the court upon a motion or a supplemental petition filed at any time within twelve months, after such transfer, showing the necessity for a survival of such suit, action or other proceeding to obtain a settlement of the questions involved, may allow the same to be maintained by or against the Secretary of Commerce.

"Sec. 11. (a) The officers, employees, and property (including office equipment and official records) of the Civil Aeronautics Board which the Bureau of the Budget, after consultation with the Board, shall determine to have been employed by the Board in the exercise and performance of those powers and duties vested in and imposed upon it by the Act of September 7, 1957 (71 Stat. 629), and which are vested by this Act in the Secretary of Commerce, shall be transferred to the Department of Commerce upon such date or dates as the Bureau of the Budget shall specify: *Provided*, That the transfer of such personnel shall be without reduction in classification or compensation, except that this requirement shall not operate after the end of the fiscal year during which such transfer is made to prevent the adjustment of classification or compensation to conform to the duties to which such transferred personnel may be assigned.

"(b) Such of the unexpended balances of appropriations available for use by the Civil Aeronautics Board in the exercise and performance of those powers and duties vested in and imposed upon it by the Act of September 7, 1957 (71 Stat. 629), and which are vested by this Act in the Secretary of Commerce, shall be transferred to the Department of Commerce upon such date or dates as the Bureau of the Budget shall specify, and shall be available for use in connection with the exercise and performance of the powers and duties vested in and imposed upon by the Secretary of Commerce by this Act.

"(c) All records transferred to the Secretary of Commerce under this Act shall be available for use by him to the same extent as if such records were originally records of the Secretary."

THE GENERAL COUNSEL OF THE TREASURY,  
Washington, June 18, 1962.

Hon. OREN HARRIS,  
*Chairman, Committee on Interstate and Foreign Commerce,*  
*House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on H.R. 10129, to amend the act of September 7, 1957, relating to aircraft loan guarantees.

The bill would extend for 5 years the authority of the Civil Aeronautics Board to guarantee loans for the purchase of aircraft by local service air carriers.

The Department is of the opinion that, if the guarantee authority is to be extended, it should not continue to be vested in a quasi-judicial body. The duty of the Civil Aeronautics Board to protect the interests of the Government as a guarantor of an air carrier creditor, or as an air carrier creditor itself when funds have been paid out as a consequence of a guarantee, would conflict with the duties of the Board to the public in discharging its quasi-judicial functions.

In that connection, the President in his message of April 5, 1962, relative to the transportation system of our Nation, stated that if the aviation loan guarantee is extended, it should be transferred to the Department of Commerce. He further stated that this problem is not regulatory in nature and is clearly separable from the chief functions of the Civil Aeronautics Board and can be acted upon more expeditiously by an executive agency.

In addition to the foregoing, it is our understanding that a proposal has been advocated to extend the guarantee authority to aircraft suitable for scheduled



all-cargo air transportation. As a general policy, this Department is opposed to the extension of existing guarantee programs into new areas, except where such extension is considered highly essential to implement impelling national policy objectives. Guarantee programs, by placing the credit of the Government at the disposal of particular groups, clearly gives these groups an advantage in competing for available funds over others who are not so favored. If this disruption of the normal market processes proves costly, it is the taxpaying public, not the receiver of the funds, that must bear the major share of the loss. In order to be justifiable, therefore, the extension of guarantee programs should involve a comparable return to the Nation as a whole. It has not been demonstrated to this Department that the extension of the guarantee program to scheduled all-cargo aircraft meets this requirement.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the administration's program to the submission of this report to your committee.

Sincerely yours,

ROBERT H. KNIGHT, *General Counsel.*

Mr. WILLIAMS. The loan guarantee program was established by Public Law 85-307, approved September 7, 1957. The purpose of the act is to provide a means whereby certificated local service, territorial, and helicopter air carriers can obtain reasonable financing for the purchase of modern aircraft more suitable to their needs, and thereby obtain more economical operations, with the view of decreasing the dependence on Federal subsidy.

The authority of the Civil Aeronautics Board, which handles the program, expires September 6, 1962, H.R. 10129 would extend the program for 5 years.

Our first witness this morning will be the Honorable Alan Boyd, Chairman of the Civil Aeronautics Board.

Mr. Boyd, I believe you have a prepared statement; is that correct?

**STATEMENT OF HON. ALAN S. BOYD, CHAIRMAN, CIVIL AERONAUTICS BOARD, ACCOMPANIED BY ROSS I. NEWMAN, ASSOCIATE GENERAL COUNSEL, AND IRVING ROTH, DIRECTOR OF BUREAU OF ECONOMIC REGULATION**

Mr. BOYD. Yes, sir.

Mr. Chairman and members of the committee, I am accompanied this morning by Ross I. Newman, Associate General Counsel of the Board, and Irving Roth, Director of our Bureau of Economic Regulation.

The Board appreciate this opportunity to appear in support of H.R. 10129. This bill, which is a companion bill to S. 2815, would extend for an additional period of 5 years the act of September 7, 1957, which authorizes the Board to provide Government guarantee of private loans to the local service and certain other air carriers for the purchase of commercial transport aircraft and spare parts. Unless renewed this legislation will expire on September 7, 1962.

The existing loan-guarantee law was originally sponsored by the Board in 1957. At that time new aircraft were being developed which it was felt would be more economical and efficient, and better adapted to the needs of the local service carriers than the DC-3 which was then commonly in use. It was apparent, however, that many of the carriers would have found it difficult or impossible to obtain new aircraft without some kind of Government assistance. The Board suggested, therefore, that legislation be enacted which would permit the

Government, under appropriate conditions, to assist these air carriers in acquiring new equipment by guaranteeing private loans negotiated by the carriers for the purchase of such aircraft. Legislation to implement these recommendations was enacted on September 7, 1957, as Public Law 35-307.

The benefits of the act are limited to carriers holding a certificate of public convenience and necessity issued by the Board designating them for local or feeder service; for metropolitan helicopter service; for service within Alaska, Hawaii, or Puerto Rico; for service between the United States and Alaska or between Florida and the British West Indies.

The act authorizes the Board to guarantee loans up to \$5 million per air carrier; a guarantee may not exceed 90 percent of the face value of the loan and 100 percent of unpaid interest.

The loan itself may not exceed either 90 percent of the purchase price or \$5 million. Loans must be repaid within 10 years. A guarantee may be made only if the Board finds that the air carrier would not otherwise be able to obtain funds for the purchase of aircraft upon reasonable terms and only if the aircraft purchased are needed to improve the service and efficiency of the air carrier. In general, the reasonableness of other terms and conditions of the loan is determined by the Board.

When the Board originally testified in support of this legislation in 1957, the local service carriers, the Alaskan carriers, and the Hawaiian carriers were operating approximately 220 DC-3 aircraft. As of September 30, 1961, the number of DC-3's being operated increased to about 250 despite the fact that during the 5 years that the Loan Guaranty Act has been in effect, loans totaling nearly \$37 million have been made for the purchase of 33 twin-turbine-engine F-27 aircraft, 12 twin-engine Convair aircraft which can be converted to turbine power, 3 twin-engine Martin aircraft, 5 single-engine Vertol helicopters, and 1 twin-turbine-engine helicopter.

It is our view that the continuation of the reequipment program of the smaller carriers is of the utmost importance to their financial success and their prospects for long-range subsidy improvement. Notwithstanding the progress which has already been made on the equipment front, many of the carriers will have requirements for further reequipment, particularly in connection with route modifications and extensions.

The Congress has indicated clearly its desire to foster and develop modern and efficient air transportation for the smaller communities. The Board has established a program to carry out this congressional intent, and at the same time to derive the maximum benefit from each subsidy dollar. Our objectives include reexamination and modification of route structures where appropriate, the development of more effective subsidy rate machinery designed to provide incentives to management to maximize revenues and to minimize costs, and the administration of the loan guarantee program to assist in the financing of more modern equipment.

The amendment to S. 2815 proposed by Senator Smathers would also make the certificated cargo carriers eligible for Government loan guarantees. The operations of the all-cargo carriers have not been profitable. It must be admitted that the development of transporta-



tion of cargo by aircraft has been disappointing, especially in the terms of the predictions made for this industry in the early postwar period. While there has been a remarkable growth in air transportation in the years since World War II, the vast market which is believed to exist for air cargo remains largely untapped. The all-cargo carriers have found it necessary to extend their operations to the military and passenger charter field in order to obtain additional revenues. Some have been forced to suspend their all-cargo services because of inability to sustain profitable operations.

The Board believes that the failure of the air transport industry to realize its potential in the movement of air cargo is attributable in part to the lack of modern specialized aircraft designed primarily to carry cargo profitably and at low rates. The Board feels that if the all-cargo carriers were able to acquire a fleet of modern, high-speed, low-cost, cargo aircraft, there would result a material contribution to the national defense and an invaluable benefit to the postal service and to the commerce of the United States. In order to make sure that the requirements of the national defense are met, the bill should contain a provision to the effect that loan guarantees for cargo aircraft shall be made only for the purchase of turbine-powered aircraft which would be made available to the Department of Defense in time of national emergency. With this qualification, the Board supports the amendment as proposed by Senator Smathers.

That completes my statement, Mr. Chairman. With the permission of the committee, I would like to submit at this time three exhibits. One is a two-page exhibit contained on one sheet of paper, which shows the aircraft purchased by local service carriers with and without guaranteed loans since the inception of the loan program through April 30 of this year, exclusive of DC-3 aircraft.

The second is a five-page exhibit which provides historical data on the loan guarantee program, showing loans approved and aircraft operated by eligible carriers.

The third is a three-page exhibit showing a schedule of guaranteed loans completed and approved, the dates, interest rates, and names of the lenders.



(The exhibits referred to are as follows:)

*Aircraft purchased by local service carriers with and without guaranteed loans since inception of loan guarantee program through Apr. 30, 1962 (exclusive of DC-3 aircraft)*

Carrier	Purchased with guaranteed loans		Purchased without guaranteed loans	
	Aircraft	Amount of loan <sup>1</sup>	Aircraft	Cost of aircraft and engines <sup>2</sup>
Allegheny.....			9 M-202's.....	\$1,454,534
			8 CV-340's.....	2,531,948
Bonanza.....	8 F-27's.....	\$5,449,500	5 CV-540's.....	10,508,617
Central.....			3 F-27's.....	2,339,000
Frontier.....	7 CV-340's.....	3,150,000	4 CV-240's.....	601,722
Lake Central.....				
Mohawk.....			5 CV-340's.....	2,225,684
			7 CV-240's.....	1,106,019
			5 CV-440's.....	3,663,318
North Central.....	5 CV-3/440's.....	2,340,000	9 M-404's.....	581,523
Ozark.....	3 F-27's.....	2,118,996	5 CV-3/440's.....	2,057,008
Pacific.....	6 F-27's.....	4,531,000		
	3 M-404's.....	469,000	5 M-404's.....	1,015,000
Piedmont.....	8 F-27's.....	4,850,000		
Southern.....			17 M-404's.....	3,250,000
Trans-Texas.....			5 M-404's.....	650,809
West Coast.....			8 CV-240's.....	1,199,605
Summary.....	25 F-27's.....		7 F-27's.....	4,159,520
	12 CV-3/440's.....		10 F-27's.....	
	3 M-404's.....		23 CV-3/440's.....	
			36 M-404's.....	
			19 CV-240's.....	
			5 CV-540's.....	
			9 M-202's.....	
Total, all aircraft types.....	40.....	22,908,496	102.....	37,344,207

<sup>1</sup> All loans were for no more than 90 percent of purchase price which included spares.

<sup>2</sup> Does not include any spares other than engines.

## Loan guarantee program, loans approved and aircraft operated by eligible carriers

Carrier	Status of loans as of Mar. 31, 1962				Aircraft operated Dec. 31, 1961	
	Loans approved	Amount drawn down	Balance outstanding	Purchased with guaranteed loan	Owned	Leased
LOCAL SERVICE CARRIERS (13)						
Allegheny Airlines, Inc.					8 DC-3's 16 M-202's 8 CV-3440's 5 CV-540's	
Bonanza Air Lines, Inc.					1 F-27	
1st loan	\$4,324,500	\$4,325,500	\$3,244,651	6 F-27's		
2d loan	1,125,000	1,125,000	1,003,511	2 F-27's		
Subtotal	5,449,500	5,449,500	4,248,162			
Central Airlines, Inc.					15 DC-3's 4 CV-240's	3 DC-3's
Frontier Airlines, Inc.					23 DC-3's	1 CV-340
1st loan	2,250,000	2,250,000	1,472,832	5 CV-340's		
2d loan	900,000	900,000	770,400	2 CV-340's		
Subtotal	3,150,000	3,150,000	2,243,232			
Lake Central Airlines, Inc.					20 DC-3's 5 CV-340's 7 DC-3's 14 CV-240's	
Mohawk Airlines, Inc.					5 CV-440's 9 M-404's 1 miscellaneous	
North Central Airlines, Inc. <sup>2</sup>	2,340,000	2,340,000	0	5 CV-3/440's	28 DC-3's 5 CV-3/440's	3 DC-3's
Ozark Air Lines, Inc.	2,118,996	2,118,996	1,631,439	3 F-27's	21 DC-3's	2 DC-3's
Pacific Air Lines, Inc.					5 DC-3's 2 M-202's 5 M-404's	
1st loan	4,531,000	4,531,000	3,258,850	6 F-27's		
2d loan	469,000	469,000	357,333	3 M-404's		
Subtotal	5,000,000	5,000,000	3,616,183	8 F-27's		
Piedmont Airlines, Inc.					14 DC-3's 26 DC-3's 5 M-404's	
Southern Airways, Inc.					23 DC-3's 8 CV-240's	
Trans-Texas Airways, Inc.					7 F-27's 14 DC-3's	
West Coast Airlines, Inc.						



HAWAIIAN CARRIERS (2)									
Aloha Airlines, Inc.:									
1st loan	2,200,000	2,200,000	1,955,160	3 F-27's		3 DC-3's			
2d loan	2,200,000	2,200,000	1,815,000	3 F-27's					
Subtotal	4,400,000	4,400,000	3,770,160						
Hawaiian Airlines, Inc.									

## Loan guarantee program, loans approved and aircraft operated by eligible carriers—Continued

## SUMMARY

Carrier	Status of loans as of Mar. 31, 1962			Aircraft operated Dec. 31, 1961	
	Loans approved	Amount drawn down	Balance outstanding	Purchased with guaranteed loan	Other aircraft
				Owned	Leased
DC-3.....				230	10
C-46.....				6	2
M-202.....				17	
M-404.....				19	
CV-240.....				3	
CV-3/440.....				26	
CV-540.....				29	1
F-27.....				5	
DC-4.....				11	
DC-6 type <sup>1</sup> .....				33	
L-740.....				6	1
CV-880.....				2	2
B-720.....				1	
S-55.....				9	
S-58C.....				7	
B-47J.....				1	
V-44B.....					
S-61L.....				5	
V-107.....				4	
Miscellaneous <sup>2</sup> .....				4	
Total.....	40,026,526	35,020,278	25,955,069	62	37

<sup>1</sup> All aircraft smaller than DC-3.<sup>2</sup> This loan was repaid on Mar. 20, 1962.<sup>3</sup> Bristol Bay and Muz are no longer operating under certificate authorizations.<sup>4</sup> Alaska Coastal and Ellis were merged on Apr. 1, 1962.<sup>5</sup> Aircraft delivered to Pacific Northern on Mar. 23, 1962. Aircraft placed in service Apr. 27, 1962. PNA has purchased a 2d B-720 without a guaranteed loan which was also placed in service Apr. 27, 1962.<sup>6</sup> 2 S-61L's placed in service Mar. 1, 1962; 2 more yet to be delivered. The S-61 L's will replace the S-55's.<sup>7</sup> 1st aircraft delivery due Apr. 30, 1962, remainder in calendar year 1962. 1st loan to be repaid before drawdown on 2d loan. The V-107's will replace the V-44B's.

NOTE.—The following aircraft were purchased without guaranteed loans since Dec. 31, 1961, and have come to our attention: Bonanza, 2 F-27's; Piedmont, 14 M-404's.



# GUARANTEED LOANS TO AIRLINES

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Civil Aeronautics Board schedule of guaranteed loans  
COMPLETED AND APPROVED

Carrier	Amount of equipment purchased	Amount of loan	Amount guaranteed	Interest rate	Duration of loan	Equipment	Date docketed	Date guarantee agreement executed	Lender
New York Airways	\$2,053,342	\$1,000,000	\$900,000	Percent 5.25	Years 5	5 V-44B Helicopters	Apr. 22, 1958	May 15, 1958	Manufacturers Hanover Trust Co., the United States Trust Co. of New York, and Federation Bank & Trust Co.
Bonanza	4,805,003	4,324,500	3,892,050	5.50	10	6 F-27's	Feb. 3, 1958	June 19, 1958	First National Bank of Nevada, First Western Bank & Trust Co., Walker Bank & Trust Co., and First National Bank of Arizona.
Piedmont	5,732,636	4,850,000	4,365,000	5.50	10	8 F-27's	Apr. 14, 1958	Oct. 6, 1958	Prudential Insurance Co. of America, the Bank of New York, the United States Life Insurance Co. in the City of New York, and the Gulf Life Insurance Co.
Pacific North Central	5,145,555 2,600,000	4,531,000 2,340,000	4,077,900 2,106,000	5.25 5.50	10 7	6 F-27's 5 CV-340's	Aug. 27, 1953 Dec. 3, 1958	Dec. 1, 1958 Jan. 9, 1959	Bank of America National Trust & Savings Association, Northwestern National Bank of Minneapolis, and Irving Trust Co.
Aloha	2,545,000	2,290,000	2,061,000	5.55	10	3 F-27's	Jan. 8, 1959	Mar. 31, 1959	Continental Assurance Co., and the United States Life Insurance Co. in the city of New York.
Wien-Alaska	1,450,300	1,305,270	1,174,743	6.00	10	2 F-27's	Mar. 27, 1959	May 19, 1959	The Bank of New York, and Teachers Insurance & Annuity Association of America.
Frontier	2,500,000	2,250,000	2,025,000	5.50	7	5 CV-340's	May 25, 1959	July 22, 1959	The Central Bank & Trust Co., Irving Trust Co., and Bank of America National Trust & Savings Association.
Ozark	2,354,440	2,118,996	1,907,096	5.50	10	3 F-27's	May 5, 1959	Aug. 14, 1959	The City National Bank & Trust of Kansas City, Mo., (participating with Mercantile Trust Co., of St. Louis, Mo.).
Pacific (24 loan) Alouha (2d loan)	620,000 2,450,153	469,000 2,200,000	422,100 1,980,000	6.00 6.00	7 10	3 M-404's 3 F-27's	Dec. 3, 1959 Dec. 11, 1959	May 9, 1960 May 24, 1960	Bank of America National Trust & Savings Association, Teachers Insurance & Annuity Association of America, Continental Assurance Co., and Kansas City Life Insurance Co.
Bonanza (2d loan) Frontier (2d loan)	1,605,637 1,000,000	1,125,000 900,000	1,012,500 810,000	6.00 5.50	10 7	2 F-27's 2 CV-340's	June 2, 1960 Mar. 10, 1961	Oct. 3, 1960 May 17, 1961	Girard Trust Corn Exchange Bank, The Central Bank & Trust Co., Irving Trust Co., and Bank of America National Trust & Savings Association.
Pacific Northern	4,701,248	4,231,123	3,808,011	5.50	10	1 B-720	Apr. 28, 1961	Nov. 7, 1961	Bank of America National Trust & Savings Association.
Los Angeles	3,212,930	2,891,637	2,602,473	5.50	10	4 S-61 Helicopters	Sept. 12, 1960	Nov. 22, 1961	Do.
New York (2d loan)	3,800,000	3,200,000	2,880,000	5.34	7	4 V-107 Helicopters	May 6, 1960	Mar. 30, 1962	Manufacturers Hanover Trust Co., the United States Trust Co. of New York, and Empire Trust Co.
Total	46,576,254	40,026,626	36,023,873	-----	-----	-----	-----	-----	-----

See footnote at end of table.

## Civil Aeronautics Board schedule of guaranteed loans—Continued

## APPLICATIONS IN PROCESS

Carrier	Amount of equipment purchased	Amount of loan	Amount guaranteed <sup>1</sup>	Interest rate	Duration of loan	Equipment	Date docketed	Date guarantee agreement executed	Lender
Chicago.....	\$3,250,000	\$2,925,000	\$2,632,500	Percent 6.00	Years 10	4 S-61..... Helicopters.	Aug. 15, 1960	-----	Harris Trust & Savings Bank, the First National City Bank of New York, Continental Assurance Co., and Commercial Union Assurance Co.
Ozark (2d loan).....	1,285,000	1,125,000	1,012,500	5.50	7	4 CV-240's	Dec. 13, 1961	-----	Bank of St. Louis
Mackey.....	920,000	820,000	738,000	5.7125	7	2 DC-6's	Jan. 24, 1962	-----	First National Bank, in Fort Lauderdale, and First National Bank of New York.
Total.....	5,435,000	4,870,000	4,383,000	-----	-----	-----	-----	-----	-----

<sup>1</sup> Amount guaranteed is 90 percent of loan in all cases.



Mr. WILLIAMS. Thank you, Mr. Chairman.

Mr. Jarman, do you have any questions?

Mr. JARMAN. Yes.

Mr. Chairman, with reference to the all-cargo carriers, have they at any time applied for subsidy support in their operations?

Mr. BOYD. One of them has, Mr. Jarman, has applied specifically. Another one, as I recollect, has indicated that whether it would reinstitute and continue its scheduled operations would very possibly depend upon whether or not subsidy was available.

Mr. JARMAN. Approximately when was the decision made by the CAB as to that subsidy request?

Mr. BOYD. The decision was issued May 4, 1962, which was last Friday.

Mr. JARMAN. Was the subsidy request granted or denied?

Mr. BOYD. No, sir, denied.

Mr. JARMAN. In your own statement, you make reference to the fact that the operations of the all-cargo carriers have not been profitable.

Mr. BOYD. That is right.

Mr. JARMAN. I would like to have a further comment from you, Mr. Chairman, on foreseeing what the possibilities might be if the all-cargo carriers are included under this Government guarantee bill. If the operations of the all-cargo carriers continue to be unprofitable to the point that they cannot service the loans, that they cannot make their payments on the loans guaranteed by the Government, would not every pressure be exerted by these carriers to obtain access to other sources of traffic to protect their loans?

The only other real source of traffic, it seems to me, would be in the passenger field, and thus, through the device of the guaranteed loans, would not the cargo carriers eventually try to emerge as passenger carriers in an already overcrowded passenger field?

Mr. BOYD. If one accepts the assumption that the cargo carriers would not be able to make a go of it, then I think that your conclusion is absolutely correct, that they would try to get into the passenger field. However, I should say that this would be nothing new, they have been trying to in one way or another get into the passenger field since the word "go". This is one of the many incessant pressures the Board has to face and I say this without any sense of criticism. These people are trying to make a living and they have every right to push just as hard as they legally can to improve their position. However, the Board has taken a very firm stand to the effect that we will not permit cargo carriers into the combination field.

And I would like to point out also, Mr. Jarman, that the only source—your statement that probably the only source of revenues would be from the passenger field does not really take into consideration the tremendous amount of military business being done by the cargo carriers, which we at the Board have encouraged to the greatest extent, and I think with considerable success, certainly with the recent cooperation of the military services. This, I think, would be—will be a continuing source of revenues for the all-cargo carriers, and rightfully so.

Mr. JARMAN. How many all-cargo carriers are there?

Mr. BOYD. Four.

Mr. JARMAN. Are all of them experiencing the financial problems that you refer to in your statement?

Mr. BOYD. Yes, sir.

Mr. JARMAN. Are all four of the carriers scheduled carriers?

Mr. BOYD. Yes, sir. Three of them are domestic carriers and one international—Seaboard World Airlines is our international all-cargo carrier operating across the Atlantic. Riddle is the North-South carrier; Flying Tiger and Slick are the East-West transcontinental carriers.

Mr. JARMAN. Would you enlarge a little on your statement that if all-cargo carriers are included under this bill, it should be limited to the purchase of turbine-powered aircraft?

Mr. BOYD. Yes, sir, one of the considerations leading to the Board's judgment on this matter is the military requirement for modern all-cargo equipment to be utilized in the event of a national emergency, or even in times of lesser strain than national emergency, the military has a requirement for long-haul turbine-powered aircraft; not because it is turbine-powered per se but because of what that permits the size and shape and range of the aircraft to be.

Mr. JARMAN. Thank you, Mr. Chairman.

Mr. WILLIAMS. Mr. Springer?

Mr. SPRINGER. Mr. Chairman, has the CAB, either under your jurisdiction or previous jurisdictions made any examination of why the all-cargo has not caught on more?

Mr. BOYD. I don't believe we could say we have made any exhaustive investigation, Mr. Springer. The aviation world is rife with opinions as to why air cargo has not yet caught on. There does appear to be a consensus that one of the reasons it has not caught on is that the right vehicle has not yet come into being.

Mr. SPRINGER. You mean for carrying it?

Mr. BOYD. For carrying it, for carrying the cargo and having at the same time an integrated loading system. One of the things that has been of tremendous expense has been the ground handling cost of cargo, getting it off and on an airplane. A great deal of development work has been done in constructing integrated loading systems and we think that considerable progress has been made in that area, which should tend to cut down ground costs considerably.

Also, the turbine engine does provide for a lower operating cost on a unit basis than the piston engine. This is true whether it be passenger movement or cargo movement, and this, of course, can be related to the tariffs.

Mr. SPRINGER. Are you talking now in terms of the turbojet prop?

Mr. BOYD. Well, at this stage of the game, we are thinking in terms of the pure turbine. The turboprop is a cheaper engine to operate than the piston engine, however.

Mr. SPRINGER. And you think that the only economical way is by jet?

Mr. BOYD. Well, I do not want to make any categorical statement like that. I think that a jet operation offers a greater potential for economic operation. This is a rather difficult area to discuss in these terms, because there is some effort being made at the present time to utilize more or less fully depreciated piston equipment for cargo movement, which does not give effect to—for lack of a better word,



the real cost of operating a service, when you take a fully depreciated piece of equipment, and this gives us some concern, because we feel that the rates to be charged for the movement of cargo should be based on costs that will stand up. They cannot operate obsolete piston equipment forever.

Mr. SPRINGER. Then I take it, to reduce this to the irreducible, the two points you have made are that this probably is going to be profitable only over a long period of time and that it will also service the public by turbine?

Mr. BOYD. Yes, sir.

Mr. SPRINGER. The second is that the loading facilities and the cost of so doing have not caught up with the business?

Mr. BOYD. That is right, sir.

Mr. SPRINGER. Are there any other factors?

Mr. BOYD. Yes; I think that another factor that is rather significant, and this is personal opinion, I must say, is that the air cargo operators need to do a great deal more study and research on what are the distribution flows in this country and where air cargo can provide a more advantageous service than the present distribution systems. To me, this is a highly important and a very significant matter.

Mr. SPRINGER. Would you feel that it would fall under your body to make such a survey, or would it fall to the industry?

Mr. BOYD. Well, I think this would be an industry requirement. We try to stay out of the business operations. It is difficult to know from a philosophical point of view where the Board should come into something like this, because I think very possibly, the requirements for a thorough examination of this whole distribution system may cost a great deal more than the cargo carriers, either individually or collectively, can scrape up. Now, whether there is enough public interest in having this information for the government to do it through the aegis of the Board, I do not know, but I can say that currently, we have no plans nor any funds to undertake such a study.

Mr. SPRINGER. I take it, overall, then, your impression, as I gather from all the testimony you have given thus far, plus your statement, is that the future for air cargo at this point is not very promising? I will put it that expansion of all-cargo is not very promising?

Mr. BOYD. No; I do not mean to give that impression.

Mr. SPRINGER. Actually, there was quite a jump in air cargo last year, contrary to what the history was in the passenger field.

Mr. SPRINGER. Now, what was the reason for that?

Mr. BOYD. One of the reasons was undoubtedly that some of the carriers got new equipment, specifically the CL-44, a Canadian aircraft. It is a so-called uncompromised cargo plane.

Mr. SPRINGER. Is this piston operated?

Mr. BOYD. It is a turboprop. Actually, it is a version of the Britannia passenger plane that the British developed several years ago. This is a more efficient operator, we think, than any other plane in the cargo fleet at the present time.

Another factor was that—again, this is personal opinion—because the combination carriers, what we normally call the trunklines, all have cargo authority; because they had a number of pieces of piston equipment for which they had no market, they converted them into cargo operation and devoted more time and effort to the movement of cargo than they had done in the past.

Mr. SPRINGER. Did you say these are the regular scheduled airlines?

Mr. BOYD. Yes, sir.

Mr. SPRINGER. Now, let me come to another point.

Let me stay on that point for just a second. Was the increase last year in the carrying of cargo in the all-cargo field, or was this increase in the scheduled airlines increase of carrying cargo?

Mr. BOYD. It was in both.

Mr. SPRINGER. Both?

Mr. BOYD. Yes, sir.

Mr. SPRINGER. How did they compare with the percentage of rising cargo business.

Mr. BOYD. I do not have those figures in my mind.

I will be glad to submit them for you if I may.

Mr. SPRINGER. Do you have an impression at this time to give to the committee?

Mr. BOYD. No, sir; I do not. The only figure I can recall now is that the cargo over the North Atlantic was up 25 percent last year.

Mr. SPRINGER. But you are not sure who carried it?

Mr. BOYD. No—all of the carriers carried it. Now, the combinations carriers, in addition to their conversions, also carried a great deal of cargo in their passenger aircraft.

Mr. SPRINGER. Now, when you come to an all-cargo certificate, that means that they cannot carry passengers?

Mr. BOYD. That is correct.

Mr. SPRINGER. They are not permitted.

Is Flying Tiger certificated by you?

Mr. BOYD. Yes, sir.

Mr. SPRINGER. They can carry personnel, but they cannot carry regular schedule; is that it?

Mr. BOYD. I think I should explain this to you rather fully. None of the all-cargo carriers has certificate authority to move passengers. However, in an effort to bolster the financial condition of the cargo carriers to enable them to develop a common carriage operation of cargo, we have permitted, through the exemption process, the all-cargo carriers to engage in passenger charters, primarily in the transatlantic area, in addition to which the Board has authorized the carriers to operate under contract to the military for whatever the military wanted to move aboard their aircraft. In some cases it has been passengers, in some cases cargo.

The cargo carriers move primarily cargo for the military, but they do also carry some personnel. I do not know what the relative percentage is.

Mr. SPRINGER. Now, what is your large cargo carrier on the North Atlantic?

Mr. BOYD. Seaboard World Airlines.

Mr. SPRINGER. Now, what percentage of business last year was carried by that line in passengers and how much in cargo?

Mr. BOYD. I do not have any idea. What percentage do you want to relate that to, Mr. Springer?

Mr. SPRINGER. I want to relate that to their total carriage in terms of dollars.

Mr. BOYD. May I provide that for you?



Mr. SPRINGER. Can any of your experts give that to us now? It would be more helpful to have it now.

Mr. BOYD. You understand they carry no individually ticketed traffic?

Mr. SPRINGER. Yes, I understand that.

Mr. BOYD. You want to know how many total passengers—the revenue they derive from passengers?

Mr. SPRINGER. From each source.

Mr. BOYD. Do you want a breakdown between military and civilian?

Mr. SPRINGER. Just how much they carried in passengers and how much they carried in cargo.

Mr. JARMAN. Would the gentleman yield?

Mr. SPRINGER. Yes, sir.

Mr. JARMAN. It has been my understanding, Mr. Chairman, that Seaboard is currently applying for the right to carry passengers on a top-off basis. Could you explain what is meant by that?

Mr. BOYD. Yes, sir. Seaboard is a cargo carrier. The CL-44 that I referred to a few moments ago has a loading system which has as an integral part pallets which go on rollers, are placed in the plane on rollers, and are then anchored. My recollection is that the CL-44 has space for 10 of these pallets, each one of which is stressed to carry 6,500 pounds. The concept of Seaboard in seeking this so-called top-off traffic, as I understand it, is that they would have several pallets available, with seats, and when they are ready to load a plane out, if the cargo they have available takes up, say, eight pallets, they would like then to sell the remaining space to anybody who wants to be transported and is willing to stand around to find out if there is going to be any space at a rate which would be equivalent to the average yield that Seaboard derives from cargo on the basis of a 6,500 pallet. This is the top-off concept.

Mr. JARMAN. How recent a request is that to the Board? Just roughly?

Mr. BOYD. My recollection is that they first filed this request approximately a year and a half ago.

Mr. SPRINGER. Has any action been taken on that?

Mr. BOYD. Let me refresh my memory. I think we turned them down once on it. But they are an optimistic group.

That is correct; we turned them down once and it was subsequently placed into—as an issue in a case which we are now undertaking, *Transatlantic Renewal* case.

Mr. JARMAN. Would the gentleman yield further?

Mr. SPRINGER. Just one further question.

Their *Transatlantic Renewal* case or somebody else's?

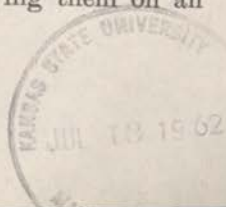
Mr. BOYD. This involves the renewal of everybody who operates certificated over the Atlantic.

Mr. SPRINGER. For passenger and cargo?

Mr. BOYD. Yes, sir.

Mr. SPRINGER. I yield.

Mr. JARMAN. As I understand, then, if they were granted the right to carry on this so-called top-off basis, then actually they would be carrying the 6, 8, or 10 passengers who might stand by to see if accommodations were available—they would be carrying them on an individually ticketed basis?



Mr. BOYD. That is correct.

Mr. JARMAN. Rather than on a chartered basis?

Mr. BOYD. That is correct.

Mr. JARMAN. My understanding of the rate that is suggested would be based upon the revenue that the carrier would receive from cargo in the same amount of space?

Mr. BOYD. That is right, sir. There is some sort of an equivalent there.

Mr. SPRINGER. Under this ticketing arrangement, they could solicit either type of space if they so saw fit?

Mr. BOYD. That is what they sought, yes, sir; and I would assume that would be true if the Board were to approve this.

Mr. SPRINGER. Approximately how many flights per week does this line engage in across the North Atlantic?

Mr. BOYD. Scheduled flights?

Mr. SPRINGER. Roughly.

Mr. BOYD. Ten round trips a week.

Mr. SPRINGER. Do you have any arrangement for ticketing on any cargo airline now?

Mr. BOYD. No, sir; never have.

Mr. SPRINGER. That is all, Mr. Chairman.

Mr. WILLIAMS. Mr. Friedel?

Mr. FRIEDEL. Mr. Boyd, I want to apologize for being late.  
Off the record.

(Discussion off the record.)

Mr. FRIEDEL. Mr. Boyd, I missed quite a few questions. I would like to know whether, if this legislation is passed, it would give the cargo carriers credit advantage not enjoyed by their nonsubsidized competitors that carry both passengers and cargo.

Mr. BOYD. A credit advantage.

Mr. FRIEDEL. Yes.

Mr. BOYD. I do not really know how to answer that, Mr. Friedel. One of the things that is of some interest to me is the fact that the trunklines, the combination carriers, through their own resources, have not only been able to finance the purchase of sufficient equipment to operate their routes, but they seem to have purchased a great deal more than they need. I would say in an abstract sense, if I can get a guarantee to borrow money and you do not find yourself in a position to get a guarantee, then at least in theory I have an advantage. But I think you have to look to what the situation is at the time the guarantee is granted. In this real world, if you look at the financial condition of the cargo carriers, I would say that realistically they probably are not getting any advantage in the sense that the trunk carriers are able to finance, have been able to finance, and it is questionable whether the cargo carriers could at all, without some sort of assistance. I cannot say that they cannot.

Mr. FRIEDEL. The purpose of my question was this: I understand that 10 years ago, when they passed a law for the all-cargo operators, it was stated that they would not require any subsidy. Now, these all-cargo carriers that are supposed to carry all cargo will be able, if we pass this bill, to finance up to 90 percent, and the regularly scheduled air carriers do not come under this bill. To my thinking,



the all-cargo carriers would have an advantage, if they could be 90 percent financed, and that to me is getting around to a subsidy.

Mr. BOYD. Of course, this is the type of thing you gentlemen have to resolve. So much of this is a matter of degree, and the question is, where do you draw the line, or should there be any line drawn?

Mr. FRIEDEL. In the earlier bill there is no provision that this be limited to all-cargo carriers; is that correct?

Mr. BOYD. There was none provided. Are you talking about the 1957 bill?

Mr. FRIEDEL. All-cargo carriers received their original certification 10 years ago on the basis that all-cargo carriers would not require subsidy.

Mr. BOYD. That is correct, and they have not received subsidy, although, as I stated, I believe before you arrived, in a recent domestic all-cargo case, in which a decision was rendered by the Board last Friday, application was made for subsidy by the carriers—by some of them. I think they were perfectly within their rights to seek them.

Mr. FRIEDEL. Getting it is another thing?

Mr. BOYD. Yes, sir.

Mr. FRIEDEL. Would this bill be limited to all-cargo carriers, or could the trunklines come under the bill?

Mr. BOYD. Well, there again, this is—my discussion has been limited to an amendment to the companion bill of the House bill we are discussing this morning, introduced by Senator Smathers, in which he limited this by the amendment to all-cargo carriers.

Mr. WILLIAMS. Mr. Chairman, do you have the text of that amendment available?

Mr. BOYD. Yes, sir; I believe I do.

In the enacting clause the Smathers amendment would provide the addition of the words "scheduled all-cargo and", which would follow the word "of" and precede the word "local", so that the enacting clause would read, in part:

In the interests of the commerce of the United States, the postal service and the national defense, to promote the development of "scheduled all-cargo and" local feeder and short-haul air transportation.

It would also insert in section 3 a new lettered phrase, which would be titled "(g)" following the present "(f)" which now reads: "(f) for the purpose of authorizing metropolitan helicopter service". Then there would be a semicolon, and "or (g) for scheduled all-cargo service."

Mr. JARMAN. Would the gentleman yield?

Mr. FRIEDEL. Yes.

Mr. JARMAN. Mr. Chairman, if the legislation is extended to all-cargo carriers, should it not in all fairness be extended to any carrier that carries cargo?

Mr. BOYD. Mr. Jarman, the only thing I can say there is that I have no position from the Civil Aeronautics Board on this subject. It has not been discussed by the Board and I would prefer to submit a statement later on that, because I do not feel qualified to speak for the Board in this matter.

Mr. JARMAN. You will submit a statement later?

Mr. BOYD. Yes, sir.

Mr. JARMAN. Thank you.

Mr. FRIEDEL. Has the Budget Bureau approved this proposed amendment?

Mr. BOYD. No, sir.

Mr. MACDONALD. I just have a very few questions.

I do not think they are perhaps directly to the point, but they are relevant enough, I think, not to be ruled out.

Mr. Chairman, it is a pleasure to see you up here again. Actually, the Smathers amendment is new to many of us, but I think if the airline industry is in as bad shape as they say they are, I am sure that the so-called local lines must be in bad shape, too.

I do have a question of what is a local line. Northeast, as a concrete example, which serves my part of the country, is in pretty bad shape. They want to drop all local service, or as many people in New England think of it as local service—in favor of the long haul. Would you call Northeast a local service or a trunkline?

Mr. BOYD. We call Northeast a trunkline, Mr. Macdonald. Northeast has a substantial local service operation, but it is a trunkline. Of course, most, if not all of the trunk carriers have local service operations.

Mr. MACDONALD. That brings me to the crux of my question. If local service were to be helped, how do you differentiate when Northeast, a concrete example, is being trunkline and when it is being local service?

Mr. BOYD. We do not make distinctions within a company.

Mr. MACDONALD. I suppose United has some local service, has it not?

Mr. BOYD. Yes, sir.

Mr. MACDONALD. Then it has also trunkline runs?

Mr. BOYD. Yes, sir.

Mr. MACDONALD. Then the carriers cargo as well?

Mr. BOYD. Yes, sir.

Mr. MACDONALD. How can you differentiate when it should be helped and when it should not be helped under the terms of this bill?

Mr. BOYD. Well, under the terms of the bill, the limitation is expressed in terms of certificate authority, and the Board has issued certificates to air carriers operating primarily short-haul routes, in which the certificate itself identifies the carrier as being a local or feeder operation. This has been, along with other things—the intra-Alaska, States-Alaska, Intra-Hawaii, and so forth, specified in the bill itself, which has been tied into the certificate authority issued by the Board. These are the standards, the definitions. So it is a matter of what you might call arbitrary definition. But it is a standard; it is one that everybody can see and everybody understands.

Mr. MACDONALD. Well, one of the things I have been concerned with and still am, and will look at this bill in the light of it, is that most everybody has been crying about the poor shape of the airlines and trying to help them. We all have voted for many bills that have tried to help the airlines. But I was wondering if, during this pinch on the airlines, the passengers were not getting a rather rough shake.

For a concrete example, I know that just recently—I think it was May 1—your Board put out a regulation saying that if I had a flat tire on the way to the airport and could not make the plane, that I would be subject to a fine up to 50 percent of however far I was



going. Yet on the other hand, it has happened, I am sure, to everybody in the room—you can call up an airline and say is a flight XYZ going at a certain time and they will assure you it is. You go to the airport, wait an hour, 2 hours, sometimes; they will just have to tell you that it is tied up in Iowa City, but it is due in Washington at 4:15. About 2 hours later, they will put a sign up, "Flight canceled."

Do you think that is fair for the airlines to be not subjected to some sort of penalty when the passengers are on the basis of the contract into which both sides have entered?

Mr. BOYD. I am afraid that you may have misconceived, Mr. Macdonald, exactly what the Board did.

Mr. MACDONALD. I would like to hear what they did.

Mr. BOYD. To answer you specifically, I think our action was eminently fair.

Mr. MACDONALD. Let's put it this way: Am I wrong in saying that a passenger who does not make a plane is subject to fine?

Mr. BOYD. That is correct. That is not the whole story, however.

Mr. MACDONALD. Am I also inaccurate in saying that a plane that does not take off, even though it had 50 passengers waiting for it, with a ticket contract, and these 50 passengers have been assured that the plane is going to go, that that airline is not subject to any action from the 50 passengers?

Mr. BOYD. I cannot give you a precise answer.

Mr. MACDONALD. Can you answer that and then explain it? If I am inaccurate, I would like to know.

Mr. BOYD. Yes and no.

Mr. MACDONALD. Yes and no?

Mr. BOYD. If you would let me explain, sir, I would be glad to.

Mr. MACDONALD. Yes, sir.

Mr. BOYD. The proposal which the Board approved to be effective May 1 does not penalize the airline if its flights are late or canceled based on matters over which it has no control, nor could it foreseeably anticipate. If it is a matter over which the airlines does have control, then the airline is penalized to the same extent that the passenger is penalized if he does not show up for a flight.

Now, I would like to point out two things, if I may, before completing my answer. One is that you are absolutely right in your first statement about the passenger being penalized. But after all, in this business as in any other, you have got to assume that a rule of reason will be applied.

Mr. MACDONALD. That is quite an assumption in the airline business, I will say that.

Mr. BOYD. It may be; but you have to have faith somewhere along the line. The second point relates directly to this. This is a 6-month experiment. We do not make any statement that this is a fine, a great thing. We think it is beneficial to the public and to the airline.

Mr. MACDONALD. How does the public benefit?

Mr. BOYD. How does the public benefit? Because if they get a reservation, they get a seat. If they do not get a seat—

Mr. MACDONALD. That is the whole point. I have a reservation, I have a seat, but I do not have a plane. They just put a sign up,

"Plane canceled." "Plane 3 hours delayed." I am not now talking about weather or safety measures, because obviously the airlines have no control over either of those.

Mr. BOYD. These are the only two items I can think of offhand.

Mr. MACDONALD. You use the word "foreseeable." Would you not think it is foreseeable if the airline gets pinched for an airplane to have another aircraft in the vicinity, when the aircraft from overuse is laid up for "mechanical difficulty," which, goodness knows, covers a multitude of sins?

Mr. BOYD. I think your point is that the airlines have the advantage that they can take advantage of the public if they want to, by just writing "Mechanical delay."

Mr. MACDONALD. If you will yield, I would go further to say more than they may do this, I would say that they do it. Because certain lines that I can name you and I would like to have a report from you sometime about the ontime performance of our domestic airlines, and I think you would find that they are very poor indeed, although Airline Daily, and other trade papers, may say they are very good. What do you think the chances are if you had a ticket for any destination in the United States, leaving from Washington today, that that plane would go out on time? What is your estimate, as both a flyer, a passenger, and a man who is experienced in this field, that the plane will go out on time?

Mr. BOYD. I do quite a bit of flying and if you will permit me to include the flights out of that very fine airport near Baltimore at Friendship, and part of this is because my experience is based between Washington and Friendship, and I find it very hard to distinguish in my mind where I departed from when, I would say in the last year my experience has been that about 80 percent of the flights I have departed on have been on time.

Mr. MACDONALD. About 80 percent?

Mr. BOYD. Yes, sir.

Mr. MACDONALD. On the reverse side, that is 20 percent that does not go out on time.

Mr. BOYD. Yes, sir.

Mr. MACDONALD. If you are inconvenienced, if you are one of the 20 percent and you get no explanation from the airline, do you not think you should have some recourse or redress from the airline if, through no fault of your own, you get a flat tire on the way to the airport, or bad traffic, you don't make that flight and you have a business engagement which means money to you, or a speaking engagement, which may mean votes for you, whichever way you want to look at it, it is something of value to you, yet you show up and there is no plane? What do you do then, except talk to somebody who has no control over it anyway, like the clerk who is so busy that he is not going to listen to you? What recourse does the passenger have? We both know he has no recourse; right? But do you not think he should have a recourse?

Mr. BOYD. I go back to what I said originally. If it is the carrier's fault, yes. What you and I are discussing at the moment is what is the carrier's fault.

Mr. MACDONALD. Right, and who checks it? Why would not your Board check it?



Mr. BOYD. Well, we will; we will. But let me point out, Mr. Macdonald, the policy of our Congress and our Government has not been that we have an army of enforcement people. We work very diligently investigating complaints. Our enforcement staff is totally involved in doing just exactly what you are talking about. But we cannot investigate every flight that shows up.

Mr. MACDONALD. That is not really my point. I am not criticizing the CAB. I know you have a very difficult job.

Mr. BOYD. I am not trying to defend, either.

Mr. MACDONALD. You have a very difficult job and so does the Board. The whole area is in a difficult period of transition. But this is not criticism of the CAB.

What I am trying to get at is why the passenger should be penalized for not making a flight through no fault of his own, when he is penalized if the airline does not live up to their part of the contract?

Mr. BOYD. Well, Mr. Macdonald, let me mention something that may have some bearing here. All of us, including you, I believe, tend to look at things in the light of our own situation.

Now, you are an honorable man and I am an honorable man, and when we make a reservation, we plan to go on that flight, and unless something completely unforeseen comes up, you will be there and I will be there. However, this whole business was developed—again I say as an experiment—not to penalize you or me, but to penalize the people, of whom there are legion, particularly in the resort areas of this country, who call up and who make reservations, who buy tickets on any number of flights. This is a very bad thing, particularly in Miami, which I happen to know quite a bit about. Transportation superintendents at hotels will buy tickets on numbers of airlines and make reservations and then scalp the tickets to hotel guests and people like that. Consequently, we get these raving letters from people who said they could not get a reservation out of Miami and they go out to the airport and they see National or Eastern go out with a plane half empty.

Mr. MACDONALD. You have taken care of that by this overbooking provision.

Mr. BOYD. That is not overbooking.

Mr. MACDONALD. Is it not a custom of the industry to overbook by roughly 10 or 15 percent, or had it not been before your regulation? In other words, selling seats where there were no seats?

Mr. BOYD. We have not tried to eliminate overbooking, but oversales we have tried to eliminate.

There is a distinction.

Mr. MACDONALD. Well, it is a very fine distinction.

Mr. BOYD. It is a fine distinction and what it boils down to is whether or not the airline gets caught. If it does not get caught, if enough people cancel out, then what were oversales are seated so there is no problem. But this is something that, so far as I personally am concerned, is not a great problem, in view of the fact that the airlines must, I think, do a certain amount of overbooking, just as every hotel will do overbooking.

Mr. MACDONALD. It is the official position of the CAB that you countenance overbooking, that you think that is a legitimate business practice?

Mr. BOYD. No; it is not.

Mr. MACDONALD. Overselling an airplane—you think that is a legitimate practice?

Mr. BOYD. No; I want to make it clear that overselling is a reprehensible practice.

Mr. MACDONALD. But you say it is common and——

Mr. BOYD. No; I said I think we have cut out overselling, but I think there is always going to be a certain amount of overbooking, because the airlines know, through past histories, just as hotels know, that there will be a percentage of cancellations and they run their risk trying to cover this.

Mr. MACDONALD. Yes. But are they not running a risk with an honorable passenger which you have described, who buys a ticket in good faith and he goes and shows up and there is no seat for him? It has happened to me, I know. Why should I be inconvenienced because the airline overbooks and oversells?

Mr. BOYD. You should not be.

Mr. MACDONALD. Why does the CAB say it is all right to do?

Mr. BOYD. We do not say it is all right to do. I am telling you that in my personal opinion, there must be some overbooking.

Mr. MACDONALD. You would not be here if you were just a private citizen.

Mr. BOYD. I am giving you the Board's position. It is that we are opposed to overselling and we have tried to eliminate overselling.

Mr. MACDONALD. To get back to my original question, do you not think, just from sheer equity, it is fair that a passenger has recourse when an airline has disrupted a business or—let us just say engagement of his when he, the passenger, has entered the contract in good faith?

Mr. FRIEDEL. Will the gentleman yield?

Mr. MACDONALD. When I hear an answer I will yield.

Mr. BOYD. I will go back to my original statement, Mr. Macdonald, that it is fair, provided it is the fault of the airline which could have been reasonably avoided.

Mr. MACDONALD. You say foreseeable. I do not desire to fly on any airline which works those planes to such an extent that a mechanical failure is practically inevitable. It is a fairly short hop. I fly it. They just beat those airplanes to death and they do not have any standby equipment. I check with their passenger agents because I know of their past history. I check with them, saying, "Is flight X going out on time?" They will assure me, "Yes, certainly it is going out on time?" I will disrupt what I am doing, take a half or three-quarters of an hour drive to the airport, get to the airport; there will be no airplane. Do you think I am being treated fairly by those airlines?

Mr. BOYD. I can only say it depends on whose fault it is.

Mr. MACDONALD. Do you not feel that I should have some recourse to somebody rather than lodging a protest with a clerk who does not have anything to do with it and who has had so many protests that he is just irritable himself, for which I do not blame him?

Mr. BOYD. Well, I think the——

Mr. MACDONALD. It would be bad enough, Mr. Boyd, if you would just say, "Well, that is the way the ball bounces." But I find on the



other hand now, I get caught in traffic on this three-quarter hour drive to the airport and I miss it, they can fine me under your regulation one-half of my ticket price.

Mr. BOYD. That is exactly right, sir.

Mr. MACDONALD. I say you are wrong if it is equally fair not to have the passenger have the same privilege, not to have a cause of action against the airlines.

Mr. BOYD. I think that you have to consider where does the public interest lie in this thing, Mr. Macdonald.

Mr. MACDONALD. We are here talking about subsidies for these airlines. I think the public has supported these airlines for a long time. I have nothing against airlines. They are wonderful. They are necessary for our economy and certainly it is a difference of a 2-hour air ride or a 12-hour car ride for me to get from my home here to Washington. I am not against the airlines. I am just saying if you let it sit, well, that is the way the ball bounces if I do not make my plane, or the plane does not go, but when the Government interferes and says the passenger can be fined one-half of his passenger fare because he has had a flat tire and it is all right for the airline to cancel out, I think you are wrong.

Mr. BOYD. Let me say we did not say that it is all right for the airline—

Mr. MACDONALD. You may not have said it, but that is the net effect of it.

Mr. BOYD. I want to say in reiteration, this is an experiment. It may prove to be wrong. If it is, we will say we are wrong.

Mr. MACDONALD. Are you going to levy fines in the period of the experiment?

Mr. BOYD. Surely.

Mr. MACDONALD. Then how is it an experiment? If I have a plane to the west coast and I have put up \$300 or \$320 or whatever it is, and I get fined \$150, it is not an experiment to me; it is an out-of-pocket expense.

Mr. BOYD. Of course it is not. It is an experiment in the sense that we do not know whether this is the best approach in the public interest. Then the only way we feel we can find out is to have an actual trial-and-error period. This is the way you get advances. It is also the way you find out where your losses are. Nobody could have known whether the air shuttle, which Eastern Air Lines operates, is a good thing or not. As a matter of fact, the bulk of the people in the aviation industry said that Eastern was crazy to operate this thing and the only way that Eastern could find out was to put the planes in and run them. They could not put a study in an IBM machine and figure out whether this was good or bad. They had to put their money on the line. It proved to be a great success.

There have been other things done that were great losses, but they found out by trial and error.

I would make one more point to you, Mr. Macdonald, which is that if you buy a ticket to California at \$320, the maximum you are going to pay is \$40. That is still a lot of money, I grant you, but it is not something that is going up to astronomical figures.

Mr. MACDONALD. This is my last question. How do you think that even in a resort area, the man who is going to get fined is not the

man who has done the scalping; the man who is going to get fined is the sucker who bought the ticket. You are never going to get to the source.

Mr. BOYD. The difference between us is that you have reached your conclusions before it has gone into effect and I am going to wait until we have concluded to decide.

Mr. MACDONALD. The difference between us is when they hear you are on board, they are going to go on time.

Mr. BOYD. They do not normally know I am on board.

Mr. MACDONALD. You do not fly under a fictitious name, do you?

Mr. BOYD. No, but I buy my ticket in the regular—

Mr. MACDONALD. I think the name Alan S. Boyd is better known than Torbert Macdonald to the airlines. And I would think you would have a little more influence on their on-time performance.

Mr. BOYD. Well, they will let me in the—

Mr. MACDONALD. I have had in my files since I introduced this bill between 500 and 600 letters from people, not just for the bill, but in relating experiences they have had, many of which are much worse than I have ever had, so it must be a common thing in the industry.

I am sorry, Mr. Friedel.

Mr. FRIEDEL. I can understand your concern when the airlines oversell and the passenger comes to the airport to board the plane. But as I understand it, under the ruling of the CAB, the airlines will be fined if they do not have a seat for them.

I just want to bring one thing to your attention.

Mr. MACDONALD. What is your fine if the plane is not there?

Mr. FRIEDEL. If the plane is there and they oversold it, the airline is subject to a fine.

Mr. MACDONALD. If you can prove overbooking. How do you prove it?

Mr. FRIEDEL. Well, the passenger has a ticket.

Mr. BOYD. It is a very simple proposition on overselling.

Mr. FRIEDEL. You yielded to me. Just let me get to one thing.

On one day last month, there were 31 flights, overseas flights that were supposed to land at Idlewild that could not land there because of weather conditions and they landed at Friendship. That was 1 day. I think for 2 or 3 days, a lot of overseas flights landed at Friendship. I had to get this plug in anyway. What do you do in a case like that?

Mr. MACDONALD. The bill I have would not be affected by your condition—No. 1, it would not, as it was grounded due to weather, and No. 2, because the regulation does not affect overseas flights. The CAB regulation does not affect overseas flights for some reason.

Mr. BOYD. Mr. Friedel, in response to your question, if I may, I would like to put in a plug for a civil penalty that the Board has sought for some time which would help us greatly in enforcing our rulings and our rules. I will say very frankly, gentlemen, as I see it, when you have situations involving weather when you have situations involving mechanical difficulties which are related to safety, and it is very difficult to say that any mechanical difficulty is not related to safety, you could have a case on each one to find out whether it was because the toilet would not flush in the lavatory or something like that, but if it is something that affects control services, engines, in-



struments, or communications equipment, I do not believe that I, as Chairman of the Civil Aeronautics Board, would say that such a delay was not a safety-cause delay. But if we could have civil penalties, as both Houses have approved civil penalties in another piece of legislation, and I hope this civil penalty thing does not get lost in the shuffle, I think we can do a more effective job of regulating the carriers under our jurisdiction.

Mr. MACDONALD. Thank you, Mr. Chairman.

Mr. WILLIAMS. Mr. Boyd, legislation before us, as I understand it, is limited in participation to local feeder and short-haul air transportation. Do the terms "short haul" and "feeder" include helicopter services?

Mr. BOYD. No, sir. There is a separate phrase, clause, which specifically covers metropolitan helicopter services.

Mr. WILLIAMS. Is that in this loan guarantee bill?

Mr. BOYD. Yes, sir; that is in the existing legislation and would be in the extension.

Mr. WILLIAMS. This does not include trunk carriers?

Mr. BOYD. No, sir.

Mr. WILLIAMS. Well, they would not be eligible to get a guaranteed loan under this legislation?

Mr. BOYD. That is correct, sir.

Mr. WILLIAMS. According to your testimony, the Board has guaranteed some \$37 million-plus in loans since the enactment of Public Law 85-307.

Mr. BOYD. Yes, sir.

Mr. WILLIAMS. I believe that a breakdown on these loans is included in the exhibits which you furnished with your testimony.

Mr. BOYD. Yes, sir.

Mr. WILLIAMS. The list includes amounts, dates of the loans, interest on the loans, and the date payable. Have there been any defaults on any of these loans?

Mr. BOYD. There have been no defaults, and I might point out, Mr. Chairman, that the Board charges three-eighths of 1 percent service fee for servicing this loan guarantee legislation and has to date collected \$231,683, which, of course, goes into general receipts, but this amount of money covers the cost of administration.

Mr. WILLIAMS. I would presume that most of these loans are amortized?

Mr. BOYD. Yes, sir.

Mr. WILLIAMS. And there have been no defaults in meeting any of the payments thus far?

Mr. BOYD. That is my understanding; yes, sir.

Mr. WILLIAMS. Now, we are paying, as I understand it, some \$70-million-odd in subsidy to the local service carriers. Is that correct?

Mr. BOYD. Yes, sir.

Mr. WILLIAMS. Do you have the amount at your fingertips?

Mr. BOYD. For fiscal 1963, the Board has requested \$71 million for the local service carriers.

Mr. WILLIAMS. Which is, by any interpretation, quite a substantial amount of money.

Mr. BOYD. Yes, sir.

Mr. WILLIAMS. What is the Board doing, if anything, toward encouraging or promoting the development of an aircraft which is specifically suitable to the needs of the local service carrier?

Mr. BOYD. We have encouraged manufacturers to discuss with us any plans they may have for short-haul carriers. We have sought the assistance of various manufacturers. We have a study going at the moment, attempting to define this in terms of total cost, operating cost, range, cruising speed, and so forth, which the Board feels will fulfill the requirements of short-haul transportation. We have developed a number of figures which we think are pretty sound and have publicized these figures. This is the extent of our efforts to date, because we have no—we have no design research people of our own and we are not trying to get into this field at all.

Mr. WILLIAMS. As I understand it, what the Board has done has been to more or less circumscribe or delineate the economic features that would be required of an aircraft suited specifically for local service operations.

Mr. BOYD. With the basic objective of reducing subsidy while continuing to provide the same or a better service than we have today.

Mr. WILLIAMS. Do you know how many aircraft are now being operated by the local service carriers?

Mr. BOYD. Approximately 300.

Mr. WILLIAMS. Of which I believe you indicated 250, or thereabouts, are DC-3's, all of which are now something over 20 years of age. Is that correct?

Mr. BOYD. Yes, sir.

Mr. WILLIAMS. It is my understanding that a DC-3 in reasonably good condition will bring as much or more on the market today, 20 years after it was manufactured, than at the time it was new. Is that a reasonable assumption?

Mr. BOYD. My understanding, Mr. Chairman, is that the DC-3 going price today is considerably lower. The last on which I have any specific information involved some DC-3's owned by Bonanza Airlines, which were sold last year, and my recollection is that the maximum price they received, depending on time since overhaul, was \$70,000.

Mr. WILLIAMS. Then I stand corrected on that.

Approximately what was the original price on the DC-3?

Mr. BOYD. \$125,000.

Mr. WILLIAMS. So in 20 years it has only depreciated about 40 percent?

Mr. BOYD. Yes, sir.

Mr. WILLIAMS. In actual value.

Can you advise us whether or not any program of research and development is being carried on by the industry at this time in seeking a solution to this problem? I said the industry. I meant that to be limited to the domestic industry.

Mr. BOYD. My understanding is that the last meeting of the Association of Local & Territorial Airlines established a committee to work on this. Other than that, I have no knowledge of any action being taken in the industry.

I do understand, sir, that the Federal Aviation Agency is doing some work in this field, but, of course, I am not qualified to speak for



them and do not know the extent of the work or how far it has proceeded.

Mr. WILLIAMS. Do you know whether NASA or any other Government agency is doing any specific research work in this field?

Mr. BOYD. No, sir; although it is my understanding that NASA and the FAA are working together in this general area. Such efforts as they have are more or less combined.

Mr. WILLIAMS. Mr. Boyd, with a cost of some \$70 million annually in subsidy to these carriers, it would appear to me to be in the interest of the general public and the U.S. Government that the Government engage in a program of research and development, with the view in mind of developing an aircraft that would be particularly suitable or adaptable to local service needs. If by the expenditure of several million dollars—well, let us just use a round figure of \$8 or \$10 million—we could reduce the subsidy by \$5 or \$6 million a year; then over a period of years, the Government would eventually profit, in a sense, from carrying on a program of this type, would it not?

Mr. BOYD. Yes, sir, and I subscribe wholeheartedly to your belief. Assuming that we cannot get a sustained effort on the part of the manufacturers, with their own risk capital, then I think it is clearly in the public interest to do just exactly what you have just stated.

Mr. WILLIAMS. It would appear to me that the future of local service carriers would depend upon the development of such a vehicle, that subsidy will be with us always until they have a vehicle or an aircraft which is suitable to their needs and which can be bought at a reasonable price and operated with a reasonable amount of economy.

Has the Board given consideration to recommending such a program to the Congress?

Mr. BOYD. All I can tell you on that, Mr. Chairman, is that we have stirred it around a little bit, but we have not felt at this juncture that we should take a position, because we are waiting to see what other agencies and the manufacturing industry, particularly, will do. We are not trying to build any empires, but if something is not done that strikes us as being concrete in the near future, I think it is fair to believe that the Board will make a very strong effort to sell such a program.

Mr. WILLIAMS. Well, the industry has had some 18 or 20 years with which to come up with something that is suitable for the local service carriers. As you indicated, you were not certain just how much attention is being given to this problem by the industry at the moment. Could it be possible that the industry is waiting for the Government to do something about it?

Mr. BOYD. Yes, sir; I would say that this is in the realm of possibility. I am rather inclined, however, to think that the local service industry, despite the fact that it has been subsidized since its inception, has had enough problems of its own in trying to maintain its operations that it has not gotten into research to any extent at all, beyond some efforts in sales research, trying to sell more tickets.

Most of these companies are really quite small and have very small staffs, and I think that up until the very recent past we would be wrong in criticizing them for not having undertaken a research program such as is involved here.

Mr. WILLIAMS. I did not have in mind the carriers themselves. I had in mind such manufacturers as Douglas or Lockheed or some of the other people.

Mr. BOYD. I think they have missed the boat completely. I thought that when they did not build a medium-range jet. It seemed to me because of the obvious greater profits that come from long-haul transportation, they have devoted most of their time to long haul, either commercial transportation or to military operations and have let this medium haul, until the 727 came along, and the short haul, which is in the area we are talking about here, just sort of go by the boards.

Mr. WILLIAMS. It would appear to me that there would be a market, an immediate market potential of at least 300 aircraft, if such a prototype were to be developed, using the figures you have already given us and not to include those aircraft which might be purchased for executive use. It is rather difficult for me to understand why they have not carried out the necessary research in order to develop such an aircraft.

I know that that is not a question: that is simply a statement of opinion. If you would like to comment on that, I would like to have your comment, sir.

Mr. SPRINGER. May I ask a question, Mr. Chairman?

Are you talking about a short-haul jet?

Mr. WILLIAMS. No; not necessarily a jet. I am speaking of an aircraft which is specifically adaptable to the needs of the local service jet, whether it is a jet, turboprop, or piston-engined aircraft.

Mr. BOYD. One of the mechanical problems, as I understand it, Mr. Springer, about jets is that for short-haul operations, up to the present, they have not come up with one that can operate effectively, efficiently, because the jet, in its present stage of development, operates most efficiently at high altitudes, and the shorter your hop the less reason there is to try to gain altitude to get the benefits that are inherent in the design of the jet itself.

Mr. SPRINGER. That has not answered the chairman's question, has it?

Mr. BOYD. He did not ask a question. He asked me if I wanted to comment, and I thought by answering you I signified I had no comment to the chairman's statement.

Mr. SPRINGER. Will the chairman yield?

Mr. WILLIAMS. Certainly.

Mr. SPRINGER. Maybe I misunderstood you, Mr. Chairman. I want to be sure I did not misunderstand you, first.

Did you say that you felt that they missed the boat when they did not develop an intermediate range jet?

Mr. BOYD. Yes, sir. A "medium range" is what I said.

Mr. WILLIAMS. What do you consider a medium-range jet?

Mr. BOYD. I think the classic example today is the Caravelle.

Mr. WILLIAMS. What is the shortest run that a Caravelle could make profitably?

Mr. BOYD. I do not know the answer to that, Mr. Chairman. It would depend to a considerable extent on the loads.

Mr. WILLIAMS. That is understandable. I understand that.

Mr. BOYD. But I would imagine probably something like 350 miles would be the minimum.



Mr. WILLIAMS. Of course, that would not be adaptable to local-service carriers?

Mr. BOYD. Oh, no.

Mr. WILLIAMS. Because local-service carriers, as I understand it, run from something like 60 to 80 to 100 miles, do they not?

Mr. BOYD. Yes, sir. Our studies indicate that the bulk of the stage links will run between 90 and 150 miles. That would be where the bulk of the flights would fall. Now, we do have some that will run 25 miles, but fortunately, these are very few.

Mr. SPRINGER. Have you made any study of the Caravelle?

Mr. BOYD. No, sir.

Mr. SPRINGER. Do you know whether or not it is economical?

Mr. BOYD. Well, I can tell you this, that my only knowledge of the economics of the Caravelle comes from statements made to me by responsible officials of the United Air Lines, who are operating the Caravelle, and their statement is yes.

Mr. SPRINGER. Were you in on any part of the development of the 707?

Mr. BOYD. No, sir.

Mr. SPRINGER. Well, when Carl Henshaw was on this—I am not trying to disapprove you, Mr. Chairman, but I was here on all of that prototype and Mr. Williams was, too, and we wrestled that up one side and down the other on the 707, and the companies could not possibly put the necessary research in on the 707. All the research on that was by the U.S. Government, as you know, and it ran hundreds of millions of dollars.

Mr. WILLIAMS. It was estimated that something like \$175 million of research went into that, was it not? Most of that carried on by the military for the KC-135, I believe, or whatever aircraft it is.

Mr. BOYD. I just would like to say, Mr. Chairman, that I hope that Mr. Springer did not misunderstand me, that I was not criticizing Boeing or Douglas for building long-range jet aircraft by any means.

Mr. SPRINGER. I understand, but you were saying they did not develop a medium-range aircraft and that was a question of finances. The research that went into the 707, and I am sure the chairman will correct me if I am wrong, but it was a lot more than \$175 million. If you take the Army's figures on it, it runs closer to \$1 billion, something like \$900 million, for all the money to finance Boeing, to get that airplane to where it flew. If you go back and look those figures up, I think I am right on that.

Mr. BOYD. I do not question that.

Mr. SPRINGER. But anyway, take the development of a prototype in this field. I had no idea until Mr. Henshaw got into this thing, and I do not think he did, either, but we have wrestled with this prototype before this committee. At the present time, I can visualize that unless more research were done, again, I do not think it would take anywhere near that amount. But my understanding of this is entirely different from yours if you thought this was a thing that they just did not do because maybe they forgot about it or did not want to. This is a matter, as I understand it, and I am pretty sure of it, of economics.

Mr. BOYD. Let me make this point, Mr. Springer, if I may. If you see it differently than I do, I will stand corrected.

You had three companies manufacturing big, long-range jet transports—Boeing, Douglas, and Convair. My assertion was that somebody missed the boat in not building a medium-range jet. Now, the facts as I understand them today are that Boeing, Douglas, and Convair have all lost money on the long-range jets that they constructed.

If you go back to 1956, you will find an article in *Fortune* magazine in which a very prophetic author wrote just exactly what was going to happen, and it did. He said these companies are tooling up to build aircraft to the extent that each of them thinks it is going to sell the entire supply of aircraft to the jet market and this is exactly what happened. So we had probably not three times the production we needed, but considerably more than we needed on a long-range transport, and here comes Sud Aviation of France, which wipes up, worldwide, with a medium jet and we do not have a medium jet. So I say somebody missed the boat.

The Board, I am advised, supported the prototype legislation for the Boeing 707. But the fact remains, with the greatest manufacturing facilities in the world, everybody involved bet on the long-range jet and they all felt they were going to garner the majority of the market, and they, so I am advised, all have lost money on it when it seems to me that they would have done a lot better if somebody had gotten into a medium-range jet. That is my whole point.

Mr. SPRINGER. Actually, the truth about the market was that the market was a military market. Was not the market the military? And the military has accepted a good portion of that market. That is what they were going for?

Mr. BOYD. Well, I do not know. Convair certainly has not gotten into the military market. At least, I do not believe they have sold anything to the military.

Mr. SPRINGER. Well, anyway, on the 707, and that is the one that I am familiar with. Also I went through the Comet. I knew them and everything else. I will say this for the Boeing people. Over there, they told me when there is an economical jet produced, they would produce it and they were the first ones that did. There was not an economical jet produced until they produced the 707. Certainly the Comet was not economical. The only way they could produce the Comet was with the Government in the operation.

I wanted to bring this out because there was a lot more to the development of a short-range than that somebody missed the boat. I think that was due to economics alone.

Mr. BOYD. I would like to say in connection with your statements about the 707 that the Board has been quite gratified to hear from Boeing that they are going to try to come up with a design along the lines that we feel are required in the short-haul area, which I think is marvelous.

Mr. SPRINGER. If they do, it will be. I am willing to concede that. I would like to see figures on the development.

Mr. BOYD. We will be happy to provide you with what we have on our form 41 figures.

Mr. SPRINGER. Thank you, Mr. Chairman.

Mr. WILLIAMS. Mr. Boyd, is this a reasonable surmise? Our American aviation industry has been so preoccupied with development



of high-speed and supersonic jet aircraft and space operations that it has neglected to a large extent the development of short-haul subsonic aircraft?

Mr. BOYD. Well, so far as we know, there has been no serious effort to develop in recent years a short-haul aircraft. I think that all of us, including the Board, have to a great extent been carried away by the jet age and we are gradually getting our feet back on the ground to some extent in coming to the realization that you can haul an awful lot of people from New York to Los Angeles at 35,000 feet, but there is still, in terms of absolute numbers, a great many more people flying from Chicago to St. Louis and places like that.

Mr. SPRINGER. Would the chairman yield at that point?

Mr. WILLIAMS. Surely.

Mr. SPRINGER. How did the F-27 develop?

Mr. BOYD. How did it develop?

Mr. SPRINGER. Yes.

Mr. BOYD. I have no knowledge on it, Mr. Springer. My understanding is that it was developed by the Fokker Aircraft Co. in the Netherlands.

Mr. SPRINGER. Who is the manufacturer in this country?

Mr. BOYD. Fairchild was manufacturing it and closed down their production lines. I understand that Fairchild has reopened its production lines and proposes to manufacture approximately one aircraft a month on a speculation basis, or on the shelf.

Mr. SPRINGER. Mr. Chairman, this is one of the problems, I will say this to you. And there were all kinds of devil raised with this committee, but you got the F-27. The DC-3 was all these fellows had to work with and the figures we had before this committee on more than one occasion on what was needed, and finally, because of all this racket, what this committee got, most of the subcommittee, that is how you got the F-27. Now, is the F-27 an economical operation for St. Louis to Chicago, and that is what you are talking about, down my throat, because that is where they fly across me?

Mr. BOYD. Yes, sir; I understand it is.

Mr. SPRINGER. I understand it is, too. Now, this is the plane which you wanted developed in the long haul and you got it. Now, are the companies buying it?

Mr. BOYD. They bought 33 so far. I understand 33. There may have been more than that.

Mr. SPRINGER. Bonanza bought eight, under the purchase guarantee loan. They bought three under the purchase without guarantee. The Ozark bought three under the guaranteed loan. That is the airline that flies across my district. Pacific bought six under the guaranteed loan program; Piedmont bought eight under guaranteed loan; West Coast purchased, without guaranty, seven. In summary there are 25, purchased with guaranty loans, 2 without guaranty loans. That is a total of 27 out of 142. Now, maybe some of these other ones that were bought did better, or are doing a better job. I have no way of knowing on these others that were bought how they are serving on what they were purchased for. But it was this committee that brought the F-27 out.

Thank you, Mr. Chairman.

Mr. FRIEDEL. Would the chairman yield for this one question?

Mr. WILLIAMS. Mr. Friedel.

Mr. FRIEDEL. Mr. Chairman, is not the noise factor with the big jets one of the big problems for this short haul?

Mr. BOYD. I have no knowledge of the noise factor being a problem in short-haul operations of jets, Mr. Friedel, because I do not know of any short-haul operations of the type we are discussing in the local service area utilizing jet operations.

However, there is no question but what the noise factor is a big problem in the operation of jet aircraft. It is a tremendous problem and one that I think all agencies of the Federal Government interested in aviation, as well as local agencies, are going to have to fight with for a long, long time.

Mr. MACDONALD. Could I ask one question?

Mr. WILLIAMS. Mr. Macdonald.

Mr. MACDONALD. To go back to what we were discussing, Mr. Chairman, what is the CAB's idea of how these fines for having a flat tire are to be assessed? Who assesses them?

Mr. BOYD. Well, first off, I want to make sure we understand each other. We do not have any flat fine, Mr. Macdonald.

Mr. MACDONALD. My implication was that if you did, you would be penalizing the airplanes because they have flat tires, too, I suppose, on this mechanical-difficulty escape clause that you now give them. Mechanical difficulties can be a flat tire, or it can be the washroom does not operate, it can be a battery in the galley. That is all mechanical difficulty and can inconvenience 60 people without any refund; is that right?

Mr. BOYD. I think that is correct; yes, sir.

Mr. MACDONALD. Well, my real question is: Who assesses the fine against the passenger who, through no fault of his own, does not make the flight?

Mr. BOYD. Who assesses the fine? The airline.

Mr. MACDONALD. In what way?

Mr. BOYD. When he presents his ticket either for refund or for another flight.

Mr. MACDONALD. In other words, if you bought a ticket from Boston to here, it costs you \$32 or whatever it does. You then would have to pay \$32 plus another \$16 to fly the flight?

Mr. BOYD. If that is the correct figure.

Mr. MACDONALD. That is the correct figure, \$32.57, I think. So you have to pay an additional \$16?

Mr. BOYD. Yes, sir—no, wait a minute.

It would be based on—is that a one-way fare?

Mr. MACDONALD. Yes.

Mr. BOYD. It would be a percentage of the one-way fare.

Mr. MACDONALD. Up to 40 percent of the one-way fare. You mean it would be more if it was a round trip?

Mr. BOYD. No; I was just trying to make the point, on the first leg.

Mr. MACDONALD. You think the airline then would charge you \$32, plus \$16?

Mr. BOYD. Yes, sir; assuming the figures are right.

Mr. MACDONALD. How many customers would ever fly that line again?

Mr. BOYD. Actually, I do not think it makes any difference.

Mr. MACDONALD. You say you are doing this to protect the industry.

Mr. BOYD. No; I did not say that at all.



Mr. MACDONALD. I had that trouble following you, because I did not follow the overbooking versus the overselling.

Mr. BOYD. Suppose I furnish you with the opinions and orders of the Board so you will then know——

Mr. MACDONALD. I have written you letters about this, so your communication, both written and oral, I am sure can be improved upon. I am now asking you what is your opinion and I do not need to be furnished any reports. If it is not done to help the industry, what is the purpose of it?

Mr. BOYD. It is done to a considerable extent to help the industry.

Mr. MACDONALD. Do you think you would be helping the industry to have them fine somebody? Do you think anybody else, that individual, would ever ride the same airline that has fined him \$16?

Mr. BOYD. This could well be the case, Mr. Macdonald. I can easily conceive that if this were done to me by American Airlines, I would say I would never ride American again. At the same time, if the disgruntled passenger is a rational individual, he would realize that this would be done to him by any airline under the same circumstances.

Mr. MACDONALD. Is it not left up to the airline to decide whether or not to impose the fine?

Mr. BOYD. Yes, sir.

Mr. MACDONALD. Why do you say every air line would do it? Those airlines that want a lot of business and are hard put already, it seems to me, would not exercise this.

Mr. BOYD. They all have the same tariff provision and they violate the law if they violate the tariff.

Now, I must go back again and say that this is the experiment, because frankly, we have some doubt in our own mind as to how well this is going to work. We do not know. And it gets back to the same old thing that I mentioned earlier about the rules of reason. We have to either operate on the theory that these people are going to violate the tariff that they filed or that they are not.

Mr. MACDONALD. It is not a violation not to impose the penalty.

Mr. BOYD. Yes, sir; it is a violation not to impose the penalty.

Mr. MACDONALD. It is mandatory?

Mr. BOYD. It is mandatory.

Mr. MACDONALD. If you miss the plane, you are to be fined?

Mr. BOYD. There are, as I recall, certain exceptions.

Mr. MACDONALD. What are the exceptions?

Mr. BOYD. I do not know. I will be happy to furnish you with the tariff, but I am not great——

Mr. MACDONALD. This is the greatest thing for the shuttle that has ever been, because if I want to get on a shuttle and do not go, I am not fined.

Mr. WILLIAMS. This is to protect against people who call up and use assumed names and book flights on three or four different airlines, who are unticketed and then when they get on the airlines they want to go on, they go out and buy the ticket and go on it and leave the rest of them hanging?

Mr. BOYD. Yes, sir.

Mr. WILLIAMS. Under those circumstances, there is hardly any way to track down the offender?

Mr. BOYD. That is right.

Mr. MACDONALD. Will you yield, Mr. Chairman?

Mr. WILLIAMS. Yes.

Mr. MACDONALD. Somebody who comes from an area where they can take a choice of airlines is certainly a fortunate person. People in my area do not.

Mr. WILLIAMS. Mr. Boyd, getting back to the problem at hand with respect to the local service carriers, has the Board given consideration to permitting flyovers under certain circumstances, and also to granting nonstop flights between points on their routes?

Mr. BOYD. Oh, yes, sir; yes, sir.

Mr. WILLIAMS. What has been done in that regard?

Mr. BOYD. We have eased up quite a bit on our restrictions that were originally applied to the local service carriers in terms of eliminating the multistop requirement and eliminating in a number of cases the one-stop requirement, so on a number of routes, the carriers can now operate nonstop after they have taken care of the basic pattern requirement.

Mr. JARMAN. Will the gentleman yield?

Mr. WILLIAMS. Go ahead.

Mr. JARMAN. In your statement, you make clear that under the existing legislation, before a Government guarantee is made on a loan, the Board must reach a finding that the airline cannot get the loan from other sources at a reasonable rate.

Mr. BOYD. Yes, sir.

Mr. JARMAN. Have there been instances in which an application for a loan under this legislation has been turned down because the Board concluded that adequate financing was available elsewhere, without turning to the Government for that?

Mr. BOYD. Let me ask Mr. Roth.

No, sir.

Mr. JARMAN. No instance?

Mr. BOYD. No, sir.

Mr. JARMAN. As an example, my understanding is that Standard of New Jersey and General Dynamics have a good-sized share of Seaboard.

Mr. BOYD. Yes, sir.

Mr. JARMAN. Would it be within the CAB's operational policy or survey of a Seaboard application to check into why Seaboard could not get financial help from Standard of New Jersey or General Dynamics before coming to the Government for assistance?

Mr. BOYD. We would check. We do check all of the normal sources of financing for the company, and require from them, as I understand it, statements that they would not, that the company could not acquire financing on what we consider to be reasonable terms. If you look at this exhibit, the last exhibit I presented, you will see what we consider reasonable terms in the sense of interest rates, particularly, and this is all debt financing.

Mr. JARMAN. Thank you.

Mr. WILLIAMS. Mr. Boyd, the time is 12:10 and we expect a roll-call on the House floor at any moment. I had wanted to interrogate you regarding the recommendations made by the President, which I understand would transfer these powers or transfer the loan guaran-



tee program under the CAB and I believe also the Interstate Commerce Commission to the Department of Commerce.

We have a witness, I believe, scheduled to testify on this legislation from the Department of Commerce, Mr. Clarence Martin, Jr., Under Secretary for Transportation.

Mr. BOYD. I would like to come back later, because the legislation on this matter was only recently introduced and through our procedures, we do not state our position until the bill comes to the Board for comment. So I have no Board position on this at the moment and I would be most appreciative if you would give me some time to develop a Board position.

Mr. WILLIAMS. I think it is only fair that the Board should be given that time and since we do have Mr. Martin to come before us, I presume that would be gist of his testimony in regard to that proposal. I think the committee perhaps should adjourn this morning and attempt to meet at 2 o'clock this afternoon. We will ask you to come back later, Mr. Boyd, at a time in the future that is convenient to the committee and to you.

Before the committee adjourns, I have some insertions to go into the record. I think perhaps more immediately following Mr. Boyd's testimony, it would be well to place into the record a policy statement issued by ALTA, which is the Association of Local and Transport Airlines, having to do with the development of a local service prototype.

I have a letter for insertion into the record from Mr. Robert W. Oliver, containing a statement on behalf of Chicago Helicopter Airways.

I also have a letter from Mr. Clarence Sayen, president of the Airline Pilots Association, on this legislation.

Without objection, these will be included in the record at this point. (The documents referred to are as follows:)

#### ALTA POLICY STATEMENT<sup>1</sup>

The problem of continued scheduled airline service to smaller intermediate cities over relatively low density routes has been ably noted by Senator A. S. Mike Monroney, chairman, Aviation Subcommittee, Senate Commerce Committee, Congressman John Bell Williams, chairman, Subcommittee on Transportation and Aeronautics, House Interstate and Foreign Commerce Committee, and other congressional aviation leaders. Continued service to such cities is at issue as is an expansion of scheduled airline services to other deserving cities not now being served. In this regard, the construction of a new, more economic short-haul aircraft has been advocated in order to provide continued and expanded service to such affected communities at a minimum cost and at a minimum level of Federal support.

The members of ALTA have carefully considered this problem and have concluded that full exploration of this matter should be made by the industry, and ALTA will work cooperatively on this problem with all interested parties in the Congress, the CAB and the FAA.

We anticipate, however, that in order to meet this objective, the following matters must be reviewed among others:

- (1) The sound economic development of an aircraft adaptable to low density routes and the small volume of commercial use anticipated at the smaller cities.
- (2) Adaptation of civil air regulations now applicable to nonairline operators to airline operation of such aircraft by presently certificated scheduled carriers.

<sup>1</sup> Adopted, ALTA spring regional meeting, Atlanta, Ga.

(3) Promulgation of Civil Aeronautics Board rules and regulations adapted to the type of operation here contemplated.

The question is an intricate one and vital to the public interest. To the end that all influencing factors may be brought together and considered by the Congress, the Civil Aeronautics Board, the Federal Aviation Agency, and the industry in the development of an effective and equitable plan, we have formed a committee of ALTA under the chairmanship of Leslie O. Barnes. This committee is directed to expedite its review and study, to confer with appropriate congressional leaders and pertinent Government agencies and to contact the aircraft manufacturers, and to draw upon such resources of its members as may be necessary to complete its study and report at the earliest possible date.

POGUE & NEAL,

Washington, D.C., May 7, 1962.

HON. JOHN BELL WILLIAMS,  
*Chairman, Subcommittee on Transportation and Aeronautics,  
House Interstate and Foreign Commerce Committee,  
Washington, D.C.*

DEAR MR. CHAIRMAN: Attached is a statement of Chicago Helicopter Airways, Inc., in support of H.R. 10129 which we ask to have included in the transcript of the hearings on this bill.

Yours very truly,

ROBERT W. OLIVER,

*Attorney for Chicago Helicopter Airways, Inc.*

STATEMENT OF CHICAGO HELICOPTER AIRWAYS, INC., IN SUPPORT OF H.R. 10129

Chicago Helicopter Airways, Inc., supports the enactment of H.R. 10129, which would extend for another 5 years the existing Public Law 85-307, which provides for Government guarantee of private loans to certain air carriers (including the helicopter carriers) for purchase of modern aircraft and equipment.

The need of extension of this legislation is demonstrated by the many guarantees which the Civil Aeronautics Board has been called upon to grant under Public Law 85-307.

The renewal of this legislation is of special interest to Chicago Helicopter Airways, Inc. This is because it is the only one of the three certificated helicopter carriers which has not yet started the conversion from piston-powered to turbine-powered helicopters.

Chicago Helicopter Airways ordered turbine-powered equipment and filed an application with the Civil Aeronautics Board for a Government guarantee under the provision of Public Law 85-307. However, the filing of the order and action on the guarantee application has been deferred in order to reappraise the number of new helicopters to be required in Chicago in view of the changing situation at Midway Airport in Chicago and to await clarification of the operating rules for the new turbine helicopters being established by the FAA.

Public Law 85-307 expires on September 7, 1962, and the reequipment program of Chicago Helicopter Airways may not be implemented in time to obtain a guarantee under the existing statute prior to its expiration on September 7.

Consequently, Chicago Helicopter Airways is in the posture where it may not be able to act in time to obtain a guarantee under the existing law, and is, therefore, vitally interested in this legislation being extended for an additional 5 years.

Whether a conversion to new and more efficient turbine helicopters can be accomplished in Chicago may well depend on whether this legislation is extended. Lenders have already agreed to make the necessary equipment loans to Chicago Helicopter Airways if a Government guarantee is granted under Public Law 85-307. However, if the availability of this guarantee were to be withdrawn by the failure to extend this legislation, this financing would be precluded, and the reversal of policy inherent in failing to renew this legislation might preclude any other financing at reasonable terms.

For the foregoing reasons, Chicago Helicopter Airways, Inc., urges the passage of H.R. 10129.



AIRLINE PILOTS ASSOCIATION,  
Chicago, Ill., May 7, 1962.

HON. JOHN BELL WILLIAMS,

*Chairman, Subcommittee on Transportation and Aeronautics, Interstate and Foreign Commerce Committee, House of Representatives, Washington, D.C.*

DEAR CONGRESSMAN WILLIAMS: The purpose of this writing is to acquaint you with the views of the Air Line Pilots Association on H.R. 10129 which is currently being considered by your committee. This bill, as we are informed, would extend and enlarge prior legislation providing for Government guarantee of private loans to promote the development of local, feeder, and short-haul transportation, both within the United States, Alaska, and Hawaii.

As most of your committee members are no doubt aware, the Air Line Pilots Association is an association of professional airline pilots of scheduled U.S. air carriers. Presently it has an active and inactive membership in excess of 15,000; the active members being employed by some 50 certificated air carriers. The association represents its membership in all aspects of their professional life. It is their collective bargaining agent under the Railway Labor Act, maintains an extensive air safety organization in a very large number of its councils scattered throughout the United States and several foreign countries, and is spokesman for the airline pilot in his relationship with the municipal, State, and Federal Governments, and all local and national organizations. As the representative of this important segment of the business of aviation we seek to engage as actively as possible in the orderly development of the aviation industry. We are pleased indeed to acquaint your committee with the position of our constituency on this proposed legislation and are hopeful that it will be of some help to you in your deliberation upon the measure.

The Air Line Pilots Association desires to go on record in firm support of H.R. 10129 and the purposes for which this bill is intended. It is our conviction that its passage is imperative in order that the impetus gained in the area under review and consideration shall be maintained and furthered.

We were privileged to address the Aviation Subcommittee of the Interstate and Foreign Commerce Committee of the U.S. Senate in June 1957, on the predecessor legislation to the present bill. We strongly urged its passage. At that time we saw the proposed legislation as the logical solution to a problem which had long harassed the subject air carriers, a most important segment of the aviation industry. Nothing has occurred in the intervening time to change our opinion, indeed, events have firmed our conviction.

It is generally recognized that the airlines which are beneficiaries under this bill are typically small-business airlines; their earnings are meager. In consequence, their capacity to borrow in the money markets is limited and extremely costly. These airlines, however, are performing a vital function to hundreds of communities throughout the United States, and the necessity for modernizing their fleets is no less than that of their bigger brethren in the industry. Such modernization is necessary for a number of reasons. Today's demands are for more efficient equipment with resultant better profits. Greater prosperity, in turn, is a means to stability. It is our feeling that in the legislation under consideration lies the bases for the continued growth and development of these carriers, in a manner which will hasten the day when they will become self-sustaining.

The report of the Civil Aeronautics Board under date of April 12, 1962, on the Government guaranteed loans, completed and in process under such legislation, informs us that some 12 of the subject air carriers have been served by a total borrowing of approximately \$50 million. We think the need for the legislation is thus manifestly demonstrated. When it is considered that this significant encouragement to the development of air transportation in the United States has been accomplished without any outlay of Federal cash, we are gratified that we have been party to the encouragement of its passage.



We believe that H.R. 10129 is greatly in the public interest. It is our hope therefore that your committee will look with favor upon the bill and will move it to the calendar without delay.

We appreciate the opportunity to make our view known on the subject legislation and the committee is assured of our assistance in any manner possible in its deliberations on this important matter.

Sincerely yours,

CLARENCE N. SAYEN, *President.*

Mr. WILLIAMS. The committee will adjourn until 10 a.m. tomorrow. (Whereupon, at 12:15 p.m., the committee adjourned, to resume at 10 a.m., Thursday, May 10, 1962.)



## GUARANTEED LOANS TO AIRLINES

THURSDAY, MAY 10, 1962

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON TRANSPORTATION AND AERONAUTICS OF  
THE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,  
*Washington, D.C.*

The subcommittee met at 10 a.m., pursuant to recess, in room 1334, New House Office Building, Hon. John Bell Williams (chairman of the committee) presiding.

Mr. WILLIAMS. The committee will come to order, please.

Our first witness this morning is Hon. Clarence D. Martin, Jr., Under Secretary for Transportation, Department of Commerce.

### STATEMENT OF HON. CLARENCE D. MARTIN, JR., UNDER SECRETARY FOR TRANSPORTATION, DEPARTMENT OF COMMERCE

Mr. MARTIN. Mr. Chairman, my name is Clarence D. Martin, Jr. I am Under Secretary for Transportation in the Department of Commerce.

I appreciate this opportunity afforded me to express the Department's views on H.R. 10129.

We favor enactment of H.R. 10129. We are of the opinion that the extension for another 5-year period of the act of September 7, 1957, now due to expire on September 7, 1962, would allow those carriers eligible to obtain loan guarantees for the purchase of aircraft to improve their service and efficiency.

A review of the program since its inception in 1957 will clearly demonstrate that the public and the aviation industry have materially gained by this program. The public has had the benefit of modern comfortable aircraft, the industry has been able to take advantage of more efficient equipment.

Tables Nos. 1 and 2 which are attached to my statement show the number and type of equipment that has been obtained and the number of carriers by class that have taken advantage of the loan guarantee program.

Under this program, aircraft equipment has been guaranteed to the amount of \$36 million which represents 90 percent of the total loans of \$40 million.

At the present time, the Board has applications pending which would guarantee additional equipment to the amount of \$4,383,000 making a grand total of about \$40.5 million guaranteed under this program since 1957.

All this has been achieved without any cost to the Government.

Senator Smathers proposed an amendment to the Senate bill which would make the scheduled all-cargo carriers eligible to participate in the aircraft equipment loan guarantee program.

Such an extension would make certificated scheduled air-cargo carriers, such as Riddle Airline, Slick Airways, Flying Tiger Line, and Seaboard World Airlines eligible for the loan guarantee program.

This Department favors amending this bill to provide for the extension of this program to include the scheduled all-cargo carriers.

The need for additional incentive to increase civil air cargo capacity is clearly evident by applying the Joint Chiefs of Staffs civil cargo aircraft requirements against current capability.

The exact figures, which are classified, point up a serious deficit for both total and limited military emergencies.

The lack of capacity to meet Joint Chiefs of Staff requirements for limited war is the prime reason for urgent action to provide incentives to increase the air-cargo capability by the civil air transportation industry.

The Civil Aeronautics Board report, dated October 1961, entitled "Commercial Air Transportation Capabilities and Requirements Under Partial Mobilization and Limited War," which used as an experience factor the increased transportation requirements of the Korean war, indicates a deficit of 14 DC-7F equivalents to meet essential civil air-cargo needs without regard to the military requirements.

The most recent CAB report, dated February 1962, entitled: "Minimum Civil Requirements for U.S. Air Transportation in Time of War—Fiscal Year 1962-63," reveals that under the most favorable conditions of assumption a civil air cargo requirement, not counting the military requirement, in excess of available capability by some 44 DC-7F equivalents in the last month of fiscal 1962, and 64 DC-7F equivalents in the last month of fiscal 1963.

We must bear in mind that these projected requirements are for only essential civil air cargo traffic needed to maintain the economic capability of national defense production during an emergency.

An important part of this Department's responsibility is to recommend programs to beneficially improve in peacetime the structure and capability of the total transportation system for use in an emergency.

The Department feels that the loan guarantee program could be of assistance in financing the equipment so necessary to the Nation in time of emergency as well as in time of peace.

However, to fully accomplish this objective, we suggest an additional amendment to H.R. 10129. Under the act of September 7, 1957, the maximum allowable amount that can be guaranteed to any one carrier is \$5 million.

We recommend that the maximum allowable amount to any one carrier should be increased to \$15 million. This would allow for the higher costs of an aircraft suitable for use in all cargo operations.

As you know, the President in his recent message on transportation recommended that the loan guarantee function be transferred from the Civil Aeronautics Board to the Secretary of Commerce.

The President listed a number of ways in which he hoped "to achieve a better balance of Federal promotional programs."



## No. 5 stated:

Last year the Congress extended until June 30, 1963, the authority by which the Interstate Commerce Commission has been guaranteeing interest and principal payments on emergency loans to the railroads for operations, maintenance, and capital improvements for which the carriers cannot otherwise obtain funds on reasonable terms.

A similar law by which the Government guarantees loans for aircraft and parts being purchased by certain certificated air carriers will expire this year. Since the Department of Commerce is already a focal point for Government transportation activities and since, in the interest of program coordination and consistency of policy these activities should be further consolidated, I recommend that the railroad loan guarantee authority, and the aviation loan guarantee authority, if it is extended, be transferred to the Department of Commerce.

These programs are not regulatory in nature and are clearly separable from the chief functions of the Interstate Commerce Commission and the Civil Aeronautics Board, and can be acted upon more expeditiously by an executive agency.

There are good reasons why the President has recommended to Congress the transfer of both railroad and air carrier loan guarantee authority to the Department of Commerce.

If one reason had to be selected to account for Government's responsibility for the chaotic patchwork of inconsistent and often obsolete legislation and regulation under which we now operate in transportation matters, it would be that there is little central direction to realize a national transportation policy in accordance with a preconceived plan.

Probably the most glaring area of lack of central direction is with respect to the promotional programs of the Government. This was emphasized in Senate Report No. 445, 87th Congress, 1st session, on national transportation policy, where it was indicated that there is no central leadership for the promotion of transport programs or in coordinating one program with any of the others.

This problem has long been recognized. Now something is being done about it. Among other programs of action to build and operate a transport system within an overall concept are the present legislative proposals to coordinate highway planning with urban transportation needs; the transfer to the Department of Commerce by Executive order of authority for emergency transportation planning; the placing of responsibility in the Secretary of Commerce by the President to undertake a broad evaluation of research needs in transportation and of appropriate methods to meet those needs; the proposal here to transfer to the Department of Commerce the promotional responsibility of the Civil Aeronautics Board to guarantee loans for air carriers.

The retention of this authority in the Civil Aeronautics Board may be rationalized on the basis that the program is not costly and that it can be administered capably by the Board.

However, since the time, scope, and amount of money involved in these loans are proposed to be extended, it is no longer a minimal program.

In addition, sight should not be lost of the overall objective to achieve, as soon as possible, greater central direction in the Government's responsibility to promote a coordinated transportation system.

Therefore, we strongly recommend that the aviation loan guarantee authority be transferred to the Department of Commerce, as requested by the President.

I have attached to my statement proposed amendments to H.R. 10129 which would (1), extend the act of September 7, 1957, for an

other 5-year period; (2) extend its coverage to include scheduled all-cargo carriers; (3) increase the maximum allowable amount that can be guaranteed to any one carrier to \$15 million; and (4) provide for the transfer of the loan guaranty function from the Civil Aeronautics Board to the Department of Commerce.

Thank you, Mr. Chairman.

Mr. WILLIAMS. Does that conclude your statement, Mr. Martin?

Mr. MARTIN. Yes, sir.

Mr. WILLIAMS. Mr. Friedel, any questions?

Mr. FRIEDEL. Referring to your amendment No. 2 to extend coverage to include all scheduled cargo carriers, would you also include trunklines, to haul cargo and passengers? Would they be able to get a loan, if necessary?

Mr. MARTIN. No, sir; our statement of position does not address itself to that. We refer specifically to the existing carriers that are eligible under the present program plus the extension to the cargo carriers.

We do not envision the extension of this to the certificated scheduled trunk carriers.

Mr. FRIEDEL. The reason I ask that question, is it not favoring the carriers that are receiving subsidies now and giving them a benefit that the other carriers do not get?

Mr. MARTIN. Well, Mr. Friedel, the major trunk carriers all at one time or another received subsidy and received substantial amounts of subsidy.

Their whole business was pioneered by the Federal Government with assistance in the mail and passenger operation subsidy. They are now self-sufficient.

Mr. FRIEDEL. This is an advantage to the existing carriers. You are talking about raising it to \$550 million and most of the cargo carriers would be subsidized. You are putting them in the position to compete with the trunklines that are not getting a subsidy.

Mr. MARTIN. Now, the cargo carriers are not under subsidy, but the feeders are. It can be demonstrated that the feeders cannot operate without it under today's conditions and the major trunk carriers have and can operate without subsidy.

They have far greater resources to draw upon than these small feeders and the cargo people cannot draw upon.

Mr. FRIEDEL. Now, I notice under the Senate bill and the House bill in its present form it permits the local service, Hawaiian, intra-Alaskan, mainland-Alaska, intra-Puerto Rico, part of British Indies, to obtain financing for aircraft otherwise unavailable to such carriers.

Would you be opposed to Senator Hartke's amendment? I understand his amendment to also include the Caribbean area and the Commonwealth of Puerto Rico.

Mr. MARTIN. I am not familiar with Senator Hartke's proposed amendment. I did not know it was up and I am not informed on that at all. I would be glad to consider that and we would be happy to transmit to the committee the Department's views on it.

I am not informed on that at all, sir.

Mr. FRIEDEL. Thank you.

That is all, Mr. Chairman.



(The information requested was subsequently furnished in the following letter to Senator Magnuson from Under Secretary of Commerce Edward Gudeman dated June 12, 1962:)

THE SECRETARY OF COMMERCE,  
Washington, D.C., June 12, 1962.

Hon. WARREN G. MAGNUSON,  
Chairman, Committee on Commerce,  
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in further reply to your request for this Department's comments on the amendment intended to be proposed by Senator Hartke to S. 2815, a bill to amend the act of September 7, 1957, relating to aircraft loan guarantees.

The amendment would provide for inclusion in the classes of certificated air carriers otherwise eligible under the act of September 7, 1957, for Government guarantee of private loans for the purchase of aircraft those with certificates "(g) providing for operations between the United States and the Caribbean area the major portion of which are conducted between the United States and the Commonwealth of Puerto Rico."

Such amendment would, in effect, enlarge the act to include a domestic trunk-line air carrier as well as a carrier whose principal operations are between the United States and Puerto Rico. It would not appear that this proposed amendment would encourage purchases of aircraft of those types in inadequate supply for possible mobilization needs, nor does it appear that the amendment would result in any lessening of subsidy payments by the Government. Moreover, the Department does not have information which would lead us to believe that the carriers affected by the proposed amendment would be unable to modernize their equipment if the amendment were not adopted. For these reasons we are unable to endorse the proposed amendment.

The Bureau of the Budget advised there would be no objection to the submission of this report from the standpoint of the administration's program.

Sincerely yours,

EDWARD GUEDEMAN,  
Under Secretary of Commerce.

Mr. WILLIAMS. Mr. Devine.

Mr. DEVINE. No questions.

Mr. WILLIAMS. Mr. Martin, on what basis do you claim that the Department of Commerce is better able to administer this program than the CAB? What is the basis for that statement?

Mr. MARTIN. The statement I do not think says that we could better administer the program than the CAB. The President recommends it be placed in the Department.

Mr. WILLIAMS. I understand that.

Mr. MARTIN. In that the Department already has promotional responsibilities in the areas of transportation and it is better to have these programs in one centralized location so a more coordinated approach can be taken to the whole transportation picture, that is only as far as the promotional aspects are concerned.

I would think the loan guarantee program is a promotional item.

Mr. WILLIAMS. It would appear to me that the Civil Aeronautics Board which is charged with encouraging or promoting the interests of aviation would have to be in a better position to try and provide for the needs of these local service carriers perhaps than would the Department of Commerce which is interested in every mode of transportation. Would you care to comment on that?

Mr. MARTIN. Yes. The department is responsible for the promotion as you say of all modes of transportation, equally and fairly. I am sure you are familiar with the number of proposals that have been made in the last year or two, I would say in the last 2 years,

in particular, for the establishment in the executive branch of the Government of a separate department of transportation to bring all modes and forms, promotional and regulatory aspects under one roof.

I do not mean regulatory to the extent of the abolishment of the CAB or the Interstate Commerce Commission in their regulatory duties but on the promotional duties.

Now these programs for maritime, public roads, aviation, and so forth, are getting to be very substantial in size. We have \$2 billion a year in public roads. We have upward in the area of \$500 million a year in maritime. The aviation programs that you are familiar with run into hundreds of millions of dollars a year.

I think a strong case can be made that these promotional programs should be better administered as far as budgetary reasons are concerned if for no other reason under one centralized area of the executive branch of the Government.

Now the Department of Commerce has played a major role in the transportation message which the President transmitted to the Congress in April and we have a substantial legislative program there which I think has been quite well accepted generally in the transportation industry.

At least it shows a step in the direction of executive responsibility in trying to coordinate our whole transportation picture and for that reason this is a good program.

There has been no question raised as to how it has been administered, no criticism, and the President feels that this is a promotional program and it could be better administered and controlled within the executive branch with the thought of coordinating this program with all promotional programs in transportation.

Mr. WILLIAMS. It would seem to me that the Board, which is immediately familiar with the problems attendant to this industry and there are peculiar problems attendant specifically to the local service industry, would be in a much better position to determine the practicability, for instance, of application on the part of any particular local service carrier than would the Department of Commerce because it can relate that to the problems and economics of the entire industry.

Now, while I can see, of course, the reasoning behind the request, as you know, the Civil Aeronautics Authority was once under the Department of Commerce and was subsequently removed therefrom.

Is this the beginning of a retreat back into the Department of Commerce for aviation?

Mr. MARTIN. Mr. Chairman, I would not like to quarrel with anything you say, but I would never acquiesce in the word "retreat."

Mr. WILLIAMS. Well, a return.

Mr. MARTIN. I would say it is a progressive step forward.

Mr. WILLIAMS. It is a step forward to a return to where we were?

Mr. MARTIN. As far as the administering of the program. Well, I cannot speak for, nor can this administration speak for, any prior administration on these programs.

I can only speak to what we hope to do now.

Mr. WILLIAMS. Thank you, Mr. Secretary.

Our next witness is Gen. Joseph P. Adams, general counsel, Association of Local Transport Airlines.



STATEMENT OF JOSEPH P. ADAMS, GENERAL COUNSEL, ASSOCIATION OF LOCAL TRANSPORT AIRLINES

Mr. WILLIAMS. General, I believe you have a prepared statement. You may proceed.

Mr. ADAMS. Thank you, Mr. Chairman.

Chairman Williams and distinguished members of the Transportation and Aeronautics Subcommittee of the House Interstate and Foreign Commerce Committee, it is a great pleasure and a privilege to appear before you advocating the extension and increased loan limits of the act of September 7, 1957, being Public Law 85-307.

It is appropriate to pause here and extend the heartiest congratulations and appreciation of the members of the Association of Local Transport Airlines—Alaska Airlines, Alaska Coastal-Ellis Airlines, Allegheny Airlines, Aloha Airlines, Bonanza Air Lines, Central Airlines, Cordova Airlines, Lake Central Airlines, North Central Airlines, Northern Consolidated Airlines, Ozark Air Lines, Pacific Airlines, Piedmont Airlines, Reeve Aleutian Airways, Southern Airways, West Coast Airlines, Wien Alaska Airlines—for the wonders you gentlemen wrought just 5 years ago when you actively participated in the enactment of H.R. 7993 introduced by your distinguished chairman of the House Interstate and Foreign Commerce Committee, Hon. Oren Harris.

The legislation approved by your subcommittee 5 years ago has been a triumphant success. It has brought financial stability to the operations of the short-haul air transport industry and it has made it possible for the industry to mark up giant strides in revenue passenger-miles each year since the passage of the legislation while the trunkline industry has been marking time in the same statistical field of passenger service.

Your foresight and aviation transportation experience has made it possible for the member carriers of ALTA alone, to purchase 33 postwar turbopowered airplanes, 19 postwar piston-powered aircraft and all with Government guaranteed loans of some \$35 million.

Not one cent of this loan amount is in default.

Your responsiveness to the public convenience and necessity needs of the smaller communities represented in your constituencies has resulted in literally millions of these passengers receiving service in postwar, pressurized, larger, and more comfortable riding equipment.

This new and improved service to the public has been made possible in 295 communities in 31 States: Alaska, Arizona, California, Colorado, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Ohio, Oregon, South Carolina, South Dakota, Tennessee, Utah, Virginia, West Virginia, Wisconsin, Wyoming, and the District of Columbia.

Not one of these cities or States could reasonably have expected to have received this improved air service without the benefits and the enactment of the Guaranteed Loan Act of 1957.

This flat statement is unequivocally supported by reason of your wisdom in writing section 4 of the act of 1957, which reads:

SEC. 4. No guarantee shall be made:

(c) Unless the Board finds that, without such guarantee, in the amount thereof, the air carrier would be unable to obtain necessary funds for the purchase of needed aircraft on reasonable terms.

The Civil Aeronautics Board in administering the act and carrying out the intent of Congress prepared Form CAB-411(a) for the application for loan guarantee and question 8 reads:

Would lender grant this loan, or a comparable loan, without guarantee by the Civil Aeronautics Board?

No more specific or even legal evidence need be introduced to support the position that these millions of "Americans with a suitcase" were and are completely dependent on you distinguished members of this subcommittee and, of course, your colleagues for their ever-increasing aviation transportation needs and requirements.

The unqualified success of this public interest legislation marks an historic example of the "arm of Congress" concept, as applied to administrative agencies of the Government.

This legislation was originally sponsored by the Civil Aeronautics Board, an "arm of Congress" and then studied, amended, and passed by Congress.

The purpose of the legislation in 1957 was to enable the feeder and short-haul type carrier to purchase equipment that would result in an economical and profitable operation, that would provide pressurized aircraft for passenger comfort, improve the attractiveness of the service to the public, and to generate increased traffic.

That these objectives have been attained in the fullest sense is beyond dispute.

The purpose of the legislation proposed in 1962 (H.R. 10129) is the same as that of 1957 and there is every reason to believe that its success when extended will match that of the past 5 years.

The Civil Aeronautics Board has made available to this committee a two-page detailed schedule of guaranteed loans, dated April 5, 1962, which is a complete up-to-date report of each loan made since the passage of the act in 1957.

I would be repetitious to reoffer this document on behalf of ALTA although it is relied on to support most of references to the success of the program made earlier in this statement or to follow.

Renewal of the act through its extension is necessary because the new equipment procured only through the operation of the act has been a major factor in enabling local service carriers to realize substantial traffic growth in a 5-year period when air traffic generally was realizing only restrictive growth.

Between 1957 and the year ended June 30, 1961, local-service commercial revenues doubled. The ability to acquire new equipment under the Guaranteed Loan Act was a significant if not the most important feature in this unusual growth record.

The committee report of 1957 stressed as one purpose of the legislation the necessity of making it possible for a carrier to obtain the funds for the purchase of aircraft on reasonable terms.

The words "on reasonable terms" are as significant today as they were 5 years ago. An example of the assistance given carriers in realizing such terms is best illustrated by the example of Bonanza Air Lines, an ALTA member carrier.

Bonanza Air Lines financed its original acquisition of F-27 turbo-prop equipment on a 10-year basis with interest rates of  $5\frac{1}{4}$  and 6 percent. Having exhausted the \$5 million guarantee available under the Guaranteed Loan Act of 1957 by reason of the \$5 million ceiling,



the airline was required in 1961 to finance its ninth F-27 without the benefits of the act.

In so doing, it was required to write off this latest loan in 5 years at a 6½-percent rate.

While an airline may be able to finance one-ninth of its equipment on a short-term basis with high interest rates, it cannot conduct an overall fleet modernization program on such unsatisfactory financial terms.

Renewal and extension of the terms of the Guaranteed Loan Act of 1957 is vitally important to provide the additional equipment that will be needed to carry the passengers now in sight. Aloha Airlines, Inc., an ALTA member carrier operating in the State of Hawaii, has prepared a study of its aircraft needs to include 1965 and it is indicative of the growing requirements of this dynamic industry.

Aloha has determined that the available seat-miles required by the carrier in 1965 will be approximately 143,200,000. The existing fleet of six F-27 aircraft can produce a capacity of 86,580,000 seat-miles, leaving an apparent deficiency of approximately 56,620,000 seat-miles.

These are conservative figures and based on six aircraft with current utilization of 1,850 annual hours, current speed of 195 miles per hour and 40 available seats.

The fact that Aloha Airlines had a system load factor of 64 percent in 1961, the highest load factor achieved by any scheduled certificated U.S. airline, lends credence to the accuracy of the carrier's predictions.

Aloha Airlines' study could be duplicated and supported by the growth requirements reasonably to be anticipated by the 10 local service ALTA members and the six Alaskan carrier members.

The seat-miles required by Aloha Airlines in the immediate 5-year period cannot be provided without the extension and renewal of the Guaranteed Loan Act of 1957.

The Association of Local Transport Airlines takes this opportunity to not only unqualifiedly recommend the renewal and extension of the Guaranteed Loan Act through the passage of H.R. 10129, but respectfully requests that Public Law 85-307, section 4(d), be amended to increase the present loan limitation ceiling from \$5 million to \$10 million.

Extension of the act with a dollar limit sufficient to embrace future technological improvements, will insure the ability of this industry to obtain the amount and type of equipment needed to meet its public service requirements on reasonable terms.

The following statistics descriptive of all phases of short-haul air transport operations which dictate aircraft needs of the local service carriers are purposefully offered for the exact 5-year period during which the Guaranteed Loan Act of 1957 has been in full force and effect.

Mr. Chairman and distinguished members of the committee, I call your attention to exhibits A, B, and C, and to the fact that this is a somewhat new method wherein on the right hand column I have indicated that in all of the statistics concerning these particular airlines, during the 5-year period of the existence of the present Guaranteed Loan Act, the needs of these carriers for equipment and everything concerned with their operation has doubled and in some cases almost 4 times what it was in 1957.

I have used the identical quarter starting in 1957, the third quarter because the act was signed in September of 1957, and using this time period should bring you up-to-date.

Now I also feel I would like to add to my statement in this regard. The association is not recommending that you add \$10 million in loan eligibility to what the carriers have now on loan, but that the ceiling be increased and that would include the amounts that they presently have on loan.

In other words, if they now have \$5 million, why, they could borrow an additional \$5 million and that, gentlemen, is based completely on these statistics, which indicate that if the \$5 million ceiling was appropriate in 1957, the ceiling of \$10 million now is exactly equally as appropriate and in one respect does not represent an increase in your intent to aid these carriers but to continue the aid at the same degree and in the same relation to their need that existed in 1957.

The individual managements of the ALTA member carriers believe, and I state to you with my fullest faith in their position, that this requested increase in the loan ceiling is a development inherent in the continued successful operation of the Guaranteed Loan Act.

The figures provided in the foregoing exhibits all indicate that in the 5-year period since the passage of the act, the requirement of the public for seats has doubled, needing more aircraft at almost tripled fleet costs.

ALTA requests your support for extended guaranteed loan legislation that will serve the same purpose as the 1957 act, operate in the same efficient manner as the 1957 act, and provide the millions of short-haul transport passengers the same improvement in service as made possible under the 1957 act.

To accomplish this same continued public benefit, the act need be amended only in the matter of the dollar amount of the loan ceiling, with no additional costs to the U.S. Government.

The Civil Aeronautics Board in testifying in support of the Guaranteed Loan Act of 1957 estimated that, on the basis of \$60 million of guaranteed loans amortized over a 10-year period, its expenses would be \$450,000 as against income from fees of \$1.5 million, a net return to the Government of approximately \$1 million.

Further, a failure to amend the 1957 act to increase the loan ceiling would find most of the presently qualified carriers under the Guaranteed Loan Act of 1957 ineligible to receive a loan under the extended act during its lifetime.

This unsatisfactory situation is determined by an analysis of the current CAB loan schedule which indicates that 10 of the loans are presently for 10 years, 5 are for 7 years, and 1 for 5 years.

Applying this loan schedule to an extension of the act for 5 years at the present \$5 million ceiling would make it impossible for the majority of the carriers presently included in the legislation to contract for a loan in addition to their present commitment, regardless of the passengers who may be waiting at the gates at several hundred small city airports.

The Guaranteed Loan Act of 1957 has proven an unqualified success.

The Association of Local Transport Airlines respectfully requests its extension by the passage of H.R. 10129, amended to increase the debt ceiling from \$5 million to \$10 million for the reasons offered at



this hearing. The opportunity to participate in this hearing is sincerely appreciated.

Mr. WILLIAMS. General, permit me to commend you on your usual excellent presentation to this committee. From the information that has been made available to the committee by the Civil Aeronautics Board, I would be inclined to agree that this program has been a tremendous success and most certainly should be continued in the interest of the public who patronize the local service carriers.

Perhaps the best example that I can think of with regard to the contribution that this program has made would be found in Bonanza Air Lines which is the largest participant in the program and which has converted to an all turboprop or all jetprop service.

Would you say that Bonanza Air Lines, by this conversion, reduced their operating costs, provided greater service, and increased passenger miles?

Mr. ADAMS. The answer is in the affirmative. The subsidy moneys paid to Bonanza Air Lines in 1961 were reduced by reason of this change to one-type fleet, turbopowered, and in a special mail rate order issued by the Board last month, in connection with an award by the Board to Bonanza Air Lines of a new route through Los Angeles, the Board specifically reduced their subsidy an additional approximate \$96,000 for the future year.

Mr. WILLIAMS. So it actually has resulted in a savings to the Government?

Mr. ADAMS. Yes, sir.

Mr. WILLIAMS. In 1 year of \$96,000?

Mr. ADAMS. Yes, sir.

Mr. WILLIAMS. Not to mention the servicing charge that the Government got out of handling the loan?

Mr. ADAMS. That \$96,000, Mr. Chairman, is the combination of the type of aircraft and the new route.

It is a combination of the two that is going to reduce it that much.

Mr. WILLIAMS. Has that conversion tended to reduce their cost of operation?

Mr. ADAMS. Yes, sir.

Mr. WILLIAMS. On a proportionate basis?

Mr. ADAMS. Mr. Chairman, one of the first results of your act was the increase in traffic over the segments already operated by many of these carriers when they put into effect postwar type equipment.

In some areas the traffic on some of these segments increased as much as 30 or 40 percent.

Mr. WILLIAMS. Mr. Friedel, do you have any questions?

Mr. FRIEDEL. I would like to compliment the general for his fine statement.

I do have one question.

I notice that Mr. Martin, Junior, Under Secretary for Transportation, Department of Commerce, recommended that the maximum allowable amount guaranteed to any one carrier be \$15 million.

You request it be increased to \$10 million.

Mr. ADAMS. Congressman Friedel, I believe that is based on their having tailored the necessity by their study to the all-cargo carriers to procure additional turbine-powered equipment, and I believe that anything less than that amount would not be practical for the pur-

chase of the type and size of equipment that is generally being talked about for those operators.

I, of course, have no problem with the amount being \$15 million as against \$10 million. The \$10 million was sponsored by our group because of it being tailored to what we believe are the needs of our members and the present eligible people under the act.

Mr. FRIEDEL. Would you like to comment, as far as transferring jurisdiction from the CAB to the Department of Commerce? I do not want to embarrass you but ask if you would care to comment?

Mr. ADAMS. No, sir. The act as it is now in full force and effect has been ably administered, in my opinion, by the CAB.

Knowing the staff and the appointed officials of the Department of Commerce, I feel that they could continue this in an efficient manner, but I do not believe, Congressman Friedel, that it is particularly appropriate for we, who are the beneficiaries of the program, to urge upon you one administration of it or another.

I believe that is more fully within your jurisdiction.

Mr. FRIEDEL. Would you like to comment on the trunk carriers that have been losing money? They cannot take advantage of this low interest rate financing by the guaranteed loans of the Government, why they should not be included?

Mr. ADAMS. I know of no reason why they should not be included, Congressman Friedel, and I only can assume, having lived with the legislation from its inception, that they may not feel the need of it and that may be why they are not requesting inclusion.

But I cannot speak for them, of course, and I cannot answer your question any more adequately than that.

Mr. FRIEDEL. But it does put the trunklines at a disadvantage as far as financing is concerned against the smaller short route haul carriers?

Mr. ADAMS. Well, I may not be the best witness on a financing proposition, but I would think in this regard that the size of most of the trunk carriers and the size of their financing is such that it has a greater appeal to national financial houses than the relatively small carriers represented in ALTA where mostly we have under 500 employees and the companies are relatively unknown to New York financial houses.

I believe that is the discrepancy that we are curing by this legislation. I have no reason to believe, Congressman Friedel, that the large carriers pay the high rates that our people would pay under similar circumstances.

Mr. FRIEDEL. Thank you.

Mr. WILLIAMS. General, the local-service territorial airlines are not, except perhaps in isolated cases, in competition with the trunklines, are they?

Mr. ADAMS. That is correct, Chairman Williams. The Board's policy does not permit that although there are isolated segments where by reason of the necessity for what we call right of entry into a terminal point, we may parallel a trunk on a short segment but it is not intentionally planned that way.

Mr. WILLIAMS. Since these are feeder airlines, so to speak, they actually make business for the trunk lines, do they not?

Mr. ADAMS. That is correct, Mr. Chairman.



Mr. WILLIAMS. Can you give us some indication as to what percentage of your passengers or your ticket purchasers buy tickets through on trunklines?

Mr. ADAMS. I believe the figure of 40 percent is good and if I find on my return to the office that that is in error, I will write you a letter.

Mr. WILLIAMS. Mr. Collier, any questions?

Mr. COLLIER. No questions.

Mr. WILLIAMS. Mr. Macdonald.

Mr. MACDONALD. As representing the short-haul or feeder airlines, do you know whether or not your airlines plan to assess penalties against passengers who cannot make an airplane after they have purchased the ticket for that airplane?

Mr. ADAMS. The Association of Local Transport Airlines is on record having opposed that particular tariff that you are discussing and individual members, when meeting with the committee of the industry that planned the implementation of the tariff, opposed the tariff; however, Congressman Macdonald, it developed that it was impractical or it might be said to be impossible for the tariff to have gone into effect unless everyone followed it and to that extent our carriers where the matter is in relation to a trunk interline, they would be required to follow the tariff.

Mr. MACDONALD. You mean if it was part of an overall trip; in other words, coming from Manchester, N.H., on a feeder line and changing, say, at La Guardia and going on to Miami, you would assess a penalty?

Mr. ADAMS. If the person was ticketed by the local carrier on a trunk.

Mr. MACDONALD. To go beyond the point that your airline can carry?

Mr. ADAMS. Yes, sir.

Mr. MACDONALD. But you would not assess him, would you, if he were only to carry out that part of the ticket that was completely within your control?

Mr. ADAMS. That is my understanding; yes, sir.

Mr. MACDONALD. And what were the reasons that your organization or the feeder airlines opposed this imposition of penalties, this one-way imposition of penalties against passengers?

Mr. ADAMS. Well, I may not be the best witness for you on that subject inasmuch as that is quite a technical matter of operations within the carrier, but I will attempt to tell you that I believe our carriers have a lower system load factor than the trunk carriers, and they did not feel that it was significant to the industry in the case of a "no-show" to the same extent it is on the trunk carriers.

But secondly, the administrative costs and the work involved in carrying out that tariff, I believe, are going to be quite considerable.

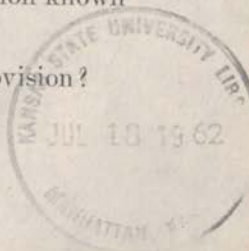
Mr. MACDONALD. All right, sir. Has your position been made public in opposition to this tariff?

Mr. ADAMS. I believe only to the extent that the position of our people has been discussed in the relative trade papers, our aviation trade papers.

Mr. MACDONALD. Did you make your views as an association known to the CAB?

Mr. ADAMS. Yes, I believe we did.

Mr. MACDONALD. Who was pushing for this penalty provision?



Mr. ADAMS. I can only report on what I have read in the past 6 months in the trade papers and my knowledge of the parties involved. I believe it originated almost a year ago. When the Board invited the presidents of all the trunklines to come in and have a real firm discussion of the industry problems which most people realized were severe and during those discussions, it is my understanding that the thought was put forward that one of the costly operation features today is the "no-show."

Mr. MACDONALD. Yes, sir. But you have just testified that the mechanics, in order to oppose this tariff would be even more costly than the "no-shows," themselves.

So if it is true for your airlines, why would it not be true for the other airlines?

Mr. ADAMS. Well, Congressman Macdonald, I do not believe I said quite that. But what I meant to say is that the relative significance of both the penalty and the failure of the person to show up is less on a carrier that has generally 80-mile traffic segments than it is a trunk carrier that was dealing in, maybe, 750-mile segments, and so there the significance to the carrier, dollarwise, is proportionately much greater than in the case of the short-haul operators.

I assume there is an administrative cost on the part of the trunk carriers but in relation to the ticket cost it could be insignificant.

Mr. MACDONALD. I see. Even though you say on page 6 of your statement that Aloha Airlines is part of your airlines and had the highest load factor achieved by any scheduled or certificated airlines scheduled in the United States?

Mr. ADAMS. That is correct, and they are 20 percentage points higher than the industry average.

Mr. MACDONALD. But you feel their position in opposition to this imposition of the penalty would not be akin to that of the regular trunklines who, I am sure, do not have a 64-percent load factor?

Just mere processing of each ticket would seem to me would be costly.

Mr. ADAMS. Well, Congressman, I am not too sure how it works but I do not believe anything is done to each ticket. It is only in the case of the person that presents a ticket that had a previous reservation and did not show.

Mr. MACDONALD. That is right, sir. That is exactly what I meant. Yesterday, Mr. Alan Boyd testified that the airline itself is charged with the duty of collecting the fine. Now, wouldn't the man-hours and arguments, and so forth, go into tying up the personnel on the ground? This, incidentally, is an area which it would seem to me the airlines have already cut back to a dangerous degree.

There are not enough ground personnel, in my mind, to service the aircraft properly. Do you not feel this will be a step in the direction to even make more arduous the ground personnel's duties?

Mr. ADAMS. Well, Congressman Macdonald, I do not believe I can be helpful because the plan has been in effect now just about a week and I honestly have not heard just how it is operating.

I am sure that your question would be a productive one if we had someone that is dealing in that particular phase of operations and could tell you what has happened since the first of May.

Mr. MACDONALD. Thank you very much.



Thank you, Mr. Chairman.

Mr. WILLIAMS. Mr. Devine.

Mr. DEVINE. Mr. Adams, you were in the room when Under Secretary Martin testified this morning?

Mr. ADAMS. Yes, sir.

Mr. DEVINE. Did you listen to his testimony?

Mr. ADAMS. Yes, sir.

Mr. DEVINE. You notice there is a slight variance in that they recommend the loan guarantee be increased to \$15 million and your organization suggests \$10 million?

Mr. ADAMS. Yes, sir.

Mr. DEVINE. Do you have any objection to the increased amount or any reason why \$15 million would be too much?

Mr. ADAMS. No, sir; we have no objection at all to the increased amount, and I would like to call your attention to page 2 and the section 4 of the act because it is my honest opinion, having worked with this act that no one can receive money that is unneeded because the company has to, in effect, make an affidavit, that they need this equipment and the CAB studies their routes and knows their needs, so I do not believe there is any danger, although it certainly pays, Congressman, to be alert to that subject.

But I do not believe that there is any danger of anyone borrowing more money than is needed by the carrier in its specific operations.

So we would have no problem with the amount being \$15 million instead of \$10 million.

Mr. DEVINE. Do you feel \$10 million would be enough?

Mr. ADAMS. That is the position of our group; yes, sir.

Mr. DEVINE. And I was not quite clear, but, again, Mr. Martin suggested this might be transferred from the CAB to the Department of Commerce.

Do you have any feelings on that?

Mr. ADAMS. Well, Congressman, as a beneficiary of the full force and effect of the act, I do not believe it is quite appropriate for us to recommend who is to administer it.

I believe that your committee is the only logical motivating factor in such a suggestion.

Mr. DEVINE. I would agree with that. But, of course, we like to have recommendations from those that are living in the trade.

Has your experience been satisfactory with the administration of the act?

Mr. ADAMS. Our experience has been completely satisfactory; yes, sir.

Mr. DEVINE. You then would have no objection if it remained where it is?

Mr. ADAMS. No, sir.

Mr. DEVINE. Thank you.

That is all, Mr. Chairman.

Mr. WILLIAMS. General Adams, you have served as a member of the Civil Aeronautics Board and have quite a distinguished record in aviation.

While you may not be able to speak for the association with authority in this regard, I would like to have your personal opinion as to whether you think that it would be in the interest of our transpor-

tation system and in the interest of the public which patronizes local services for this program to be placed under the Department of Commerce?

You made the remark a few minutes ago in response to a question asked by Mr. Devine, I made a note of the words you used, you said, "The CAB, in considering these loan applications, studies the routes and they know the needs of the particular carriers."

Now, would that also be true in the case of the Department of Commerce?

Mr. ADAMS. It would be necessary for whoever is administering the loan to be cognizant of the operating requirements and necessities in the public service of that particular carrier which relates to its equipment; yes, sir.

Mr. WILLIAMS. Which of the two do you personally feel would be best qualified to administer this program in the interest of the public?

That is, the flying public.

Mr. ADAMS. Well, Mr. Chairman, as I indicated, the administration of the program during its 5 years of life has been most efficient and the carriers that have required the loans have been granted the loans and I have no reason to believe that anyone has failed in the intent of the act through its administration, and I know many of the personnel and the people in the Department of Commerce under the Transportation Section, and I know they are well qualified.

I would assume that they would procure the basic transportation statistics in relating to a carrier from the CAB, which is the only source of the operating statistics of all certificated carriers.

These statistics are made a part of what is known in the trade as form 41 reports and they are submitted monthly, quarterly, and the Board has those, and through studying those you can tell the load factors, the frequency of flights, the schedules, the route-miles, and every variant that is needed in discussing the need of a carrier for equipment.

Mr. WILLIAMS. General, getting into another field, what is the cost, if you know, was the seat-mile cost of operating a DC-3 as compared to the seat cost of operating an F-27?

Mr. ADAMS. I would be pleased to offer that later, Mr. Chairman. I do not have it with me.

(The requested information was submitted by letter from Mr. Winfield H. Arata, Jr., dated May 14, 1962, appearing on p. 89.)

Mr. WILLIAMS. Can you advise us whether the F-27 is a cheaper aircraft to operate on that basis than the DC-3?

Mr. ADAMS. I feel quite certain it is, Mr. Chairman. But you are going to have appearing before you later in this session representatives of the Fairchild Co., and I am sure that they can provide you with some actual results in equipment that they have manufactured and sold to date.

Mr. WILLIAMS. Well, while you are before the committee, I have some questions that I would like to ask you in regard to what is being done in the way of developing an aircraft specifically designed for your needs.

Mr. ADAMS. Well, Mr. Chairman, I would like to refer to a statement which you were so kind as to put in the record yesterday.



It is entitled "ALTA Policy Statement," dated April 27, 1962. This was adopted at our spring regional meeting in Atlanta, Ga., at which meeting the distinguished chairman of this committee was our speaker.

This statement deals with the subject that you have raised and if I might, may I read the first paragraph.

Mr. WILLIAMS. Surely.

Mr. ADAMS (reading):

The problem of continued scheduled airline service to smaller intermediate cities over relatively low density routes has been ably noted by Senator A.S. Mike Monroney, chairman of the Aviation Subcommittee, Congressman John Bell Williams, chairman of the Subcommittee on Transportation and Aeronautics, House Interstate and Foreign Commerce Committee, and other congressional and aviation leaders.

Continued service to such cities is at issue as is an expansion of scheduled airline services to other deserving cities.

In this regard, construction of a more economical short-haul aircraft has been advocated in order to provide continued and expanded service to such affected communities at a minimum cost and at a minimum level of Federal support.

The statement goes on to give several other requirements and also to name the president of Allegheny Airlines as chairman of a committee which is to proceed on behalf of our group to explore every facet of the subject you have raised.

Mr. WILLIAMS. I have no further questions.

Mr. Jarman, do you have some questions?

Mr. JARMAN. General Adams, I am sure you are familiar with the so-called Smathers amendment that would bring all cargo planes within this legislation?

Mr. ADAMS. Yes; I am.

Mr. JARMAN. Would you care to comment on that recommendation?

Mr. ADAMS. I am happy to comment on it.

The association that I represent and our carriers have no difference or problem with a decision by this committee or either arm of Congress to add qualified people to the loan, and if, in your wisdom, these people have a need for the guaranteed loan to the same extent that the carriers named by this statement have, then I am sure that you will add them.

Mr. JARMAN. Have you given any thought to the position of the CAB as expressed by Chairman Boyd yesterday in which he indicated that the Board would support the Smathers amendment provided the bill contained a provision to the effect that loan guarantees for cargo aircraft shall be made only for the purchase of turbine-powered aircraft which would be made available to the Department of Defense in time of national emergency?

Mr. ADAMS. Yes; I heard him make that statement. Congressman Jarman, and I believe that that is a point that you will want to consider, and I am sure the reasoning for it, having myself served in a similar capacity, is that the Board would feel that it is proper to include such aircraft but may not feel it is proper to include some re-worked piston-type aircraft where they may only have cut out larger doors or something to make it into a cargo plane; whereas if the plane as described by the Chairman of the CAB is a modern, up-to-date turbine-powered aircraft which could be either a prop jet or power jet plane, that would be suitable to the military's needs, I feel that that is an added reason why the cargo aircraft loan might be considered in the public interest.

Mr. JARMAN. If the Smathers amendment should be adopted, do you feel that the legislation extending the provisions to all-cargo carriers should contain a limitation that the aircraft acquired through guaranteed loans be used only in scheduled cargo service?

Mr. ADAMS. I would feel, Congressman Jarman, that the loan should be based on the type of carrier, and you, if you add "carriers" you will add them by name, I assume, as you did in your original legislation.

So once you have decided that such and such airline is to be eligible, I would not think, Congressman Jarman, that you would want to take the next step and state exactly in what type of service they should use it.

I believe that once you have satisfied yourself that that company and the operations of which are known to you by its title and description need the loan and qualify, that that would be adequate.

Mr. JARMAN. Would you feel that including the all-cargo carriers in this legislation would give the all-cargo carriers a credit advantage that is not enjoyed by their competitors who provide both passenger and cargo service?

Mr. ADAMS. I do not think so, and for this reason: I believe that the carriers, the trunk carriers, today are basically of such size and corporate worth that they are having no difficulty with their financing of aircraft, and the disparity exists today in the fact that they are in such a better condition or position than these very small carriers that all this loan legislation does is to do away with the disparity by giving these small companies an opportunity to borrow money in the money market that they do not now have, and, if anything, it merely equalizes their opportunity with that of the trunk carriers.

I do not think that it ends in increasing or continuing the disparity.

Mr. FRIEDEL. Do you not think the trunk carriers should be able to get financing at the same rate or under the same provisions that you do now?

Mr. ADAMS. I believe, Congressman Friedel, that the trunk carriers have been able to reequip at rates that are comparable to those that have been realized by our carriers through the exercise of the Guaranteed Loan Act.

Mr. FRIEDEL. Why should they not be included in the present bill? If the rates are comparable, they would not get any benefit at all according to what you say but evidently they would like to be included?

Mr. ADAMS. Oh, Congressman Friedel, these cargo carriers are very small operators in relation to what we know as the 11 trunk carriers in the United States and their financial position, at least as indicated in the trade press from time to time is quite marginal and they, I assume, are having difficulty with their creditors or they would not be asking your assistance.

However, I do not know that firsthand, as I do not represent them.

Mr. FRIEDEL. Well, would it be fair to have them included at the same rate of financing?

Mr. ADAMS. Well, I would have no problem.

Mr. FRIEDEL. All they are asking is an equal opportunity to finance their planes at the same rate you are getting under our present law?

Mr. JARMAN. Will the gentleman yield?

Mr. FRIEDEL. Yes.



Mr. JARMAN. It is your understanding that these trunklines do not need this kind of assistance?

Mr. ADAMS. That is my understanding.

Mr. JARMAN. Are you speaking generally?

Mr. ADAMS. Yes, sir.

Mr. JARMAN. Does your general statement include all the major trunklines?

Mr. ADAMS. Yes, sir; it would include all the trunklines.

Mr. JARMAN. You know of no major trunkline that is having any difficulty getting loans for purchase of equipment?

Mr. ADAMS. I do not know of any; no, sir.

Mr. FRIEDEL. How about TWA?

Mr. ADAMS. Well, I do not believe I am qualified to comment on that other than to say I think their problem is much broader than that of just getting a loan.

Mr. JARMAN. If the Congress should decide to include the all-cargo carriers within the provisions of this legislation, do you not feel that in fairness, any carrier authorized to carry cargo should be able to obtain the benefits of this legislation?

Mr. ADAMS. Well, I will answer you directly by saying that I would have no problem with your inclusion of anyone that this committee feel needs this type of Government aid and, if these carriers that you describe need it, I see no reason why they should not be added and I see no reason why this act should not pertain to all the 11 trunk carriers because it is self-policing.

Nobody uses this act unless they have to because, each time a carrier gets a loan under this act, they have to state that they cannot procure the money in a comparable manner from any source without the guarantee.

Furthermore, when they apply to the Civil Aeronautics Board for a loan, that is public knowledge to the industry and to the banking fraternity and if there is any banker in any part of the country that would like to loan the carrier the money under the terms that are being discussed, he need only step forward and say, "I will loan you that money."

Then the carrier can withdraw his application for the loan guarantee. So in a unique fashion, the act is completely self-policing. No one gets a loan that they do not need and it has been proven to be the case in every loan to date.

Mr. MACDONALD. Just to buttress your remarks about TWA, I would like to point out that just very recently Howard Hughes made application and made quite a campaign within the CAB to get permission to purchase another airline, to wit, Northeast Airlines, and they were given that permission.

So I would think financially the CAB must think they are in pretty good shape to give them permission to take over an airline that is operating with a deficit.

Mr. FRIEDEL. Let me ask you one more question.

I asked Mr. Martin, and I am sure you heard me, whether he would object to including an amendment introduced by Senator Hartke to include Puerto Rico in the bill.

Do you have any comment on that?

Mr. ADAMS. I will answer you definitely. We have no problem with it and there is a carrier, a short-haul carrier, that operates in that area.

I believe it is Trans Caribbean Airways that might desire this aid. I am sorry I cannot think at the minute whether they are included in the act of 1957 or not.

Mr. MACDONALD. Mr. Roy Chalk is the president of that company and is sitting behind you and probably can testify as to that.

Mr. ADAMS. Trans Caribbean is not included in the act. They are asking it be amended to include them. There is an additional carrier in the area and I misstated the name. It is Caribair.

I have no difficulty with the inclusion of Puerto Rico or Trans Caribbean Airways if that carrier needs this type of aid.

I wish to say, again, that I know of no piece of legislation that has been as successful as this act in the 5 years it has been in effect.

It is unique and the committee and you gentlemen are not receiving the commendation you should in the public mind for having conceived such a fine piece of legislation and it has just been wonderful.

Mr. FRIEDEL (presiding). Any more questions?

Our next witness is Mr. R. A. Fitzgerald, vice president, Washington affairs, Seaboard World Airlines, Inc.

**STATEMENT OF RICHARD A. FITZGERALD, VICE PRESIDENT, WASHINGTON AFFAIRS, SEABOARD WORLD AIRLINES, INC.**

Mr. FITZGERALD. Mr. Chairman and members of the committee, I appreciate this opportunity to testify on H.R. 10129.

My purpose is to urge the expansion of the provisions of the bill to include guaranteed loans to all-cargo carriers for the purchase of cargo aircraft.

Seaboard World Airlines is a certificated all-cargo carrier, operating over the North Atlantic and serving points in Western Europe, including the United Kingdom, Ireland, the low countries, Germany, Switzerland, and France.

Seaboard World is the only scheduled international all-cargo air carrier presently operating under the American flag. It has its headquarters at the Idlewild Airport in New York.

Seaboard World Airlines has been operating freight services across the North Atlantic since May 1947. Until 1956, it operated as a non-scheduled cargo carrier. Since April 1956, it has operated under a certificate of convenience and necessity which authorizes scheduled cargo and mail service between the United States and Europe.

Seaboard World has many proud accomplishments in the public interest.

It was one of the first air carriers to provide transatlantic airlift support for the Berlin airlift in 1954—during the 6 months of the Berlin airlift it operated 107 transatlantic freight flights, carrying 1,394,000 pounds of cargo.

Two years later—in July 1950—Seaboard World was the first carrier to take off from Travis Air Force Base in California to inaugurate the Pacific airlift to Tokyo in support of the Korean action.



During the following 44 months Seaboard World operated 2,500 flights, totaling 17 million miles, carrying 23 million pounds of freight and 34,000 military passengers.

Since the end of the Korean conflict, Seaboard World has continued to provide a large volume of airlift for the U.S. military establishments while, at the same time, developing the commercial airfreight market between the United States and Europe.

This company's contribution to the development of U.S.-flag commercial cargo service between the United States and Europe is demonstrated by the fact that North Atlantic commercial freight carried by U.S.-flag carriers has increased from 4,539,000 kilos in 1955, which was prior to certification of Seaboard World, to 31,847,000 kilos in 1961, an increase of sevenfold; and the U.S. carriers' share of the North Atlantic market increased from 38 percent in 1955 to 48 percent in 1961.

Seaboard World's share of the U.S.-flag total increased from 32 percent in 1957 to 51 percent in 1960.

At the present time, Seaboard World is the only carrier—United States or foreign—operating modern, turbine-powered cargo aircraft on the North Atlantic route.

We believe that our operation has substantially stimulated the growth and development of aircargo and that our continued operations will stimulate more vigorous cargo development in the future.

In 1959, Seaboard World contracted to purchase five Canadair CL-44 propjet cargo aircraft to be delivered in 1961.

We ordered them from Canadair, which is a Canadian company.

The CL-44 is a swing-tail turbine-powered propeller aircraft having a capacity in excess of 30 tons on the North Atlantic route. It is convertible to passenger service and will carry 165 passengers with their baggage.

It is the only modern all-cargo aircraft in service today, and it is the only existing cargo aircraft which has a chance of making a profit at existing and foreseeable cargo rates.

The CL-44 is manufactured in Canada by Canadair, Ltd., which is a subsidiary of General Dynamics—a U.S. corporation. The action of our company in acquiring the CL-44 was dictated by the fact that it was the only modern, long-range, all-cargo aircraft available to us at the time.

Moreover, we were able to acquire these aircraft only because the Canadian Government assisted us in financing the aircraft by an arrangement which is basically comparable to the guaranteed loan program here under consideration.

I should say it is a much less favorable system than we have under the present law for the local-service carriers.

But for this assistance, we would not have the CL-44's in operation today, and the United States would have five less modern cargo planes in its Civil Reserve Air Fleet, and, as you know, there are few of those.

Seaboard World's accomplishments have not been achieved without serious sacrifices by its stockholders and management.

Unlike the scheduled passenger air carriers, all-cargo air transportation has not been an economic business up to this point in time.

This is illustrated in our case by the fact that our earned surplus

as of December 31, 1961, was a deficit of \$13,210,000 and by the further fact that our losses totaled over \$11 million during the past 2 years.

The basic cause of our past losses was the lack of aircraft capable of operating at sufficiently low unit costs to permit rates which would produce a reasonably economic volume of service.

We now have the aircraft which can do the job. The CL-44 can produce unit costs which will permit profitable operations at current air freight rates. This does not mean that we are sure of making a profit, for our operations are subject to the same competitive problems about which our larger passenger carrier brothers so loudly complain—and we have the tremendous handicap of being required to operate without the benefit of passenger revenues and without the advantage of carrying freight in the cargo holds of large passenger aircraft.

On the other hand, all of the other 17 passenger carriers operating over the North Atlantic can operate all-cargo aircraft, and a number of them do.

With the delivery of our fifth CL-44 aircraft we have now established a pattern of service under which we expect to make a modest profit. This pattern of service includes a substantial volume of military contract service, and we are dependent on military traffic for a substantial part of our revenues.

At the present time, Seaboard World is considering the purchase of additional CL-44 aircraft. Because of the complex problems of crew integration, maintenance, and other technical problems, it would be uneconomical for us to acquire a different aircraft type at this time.

Our efforts to acquire these additional aircraft are dependent in large part on financing to be guaranteed by the Canadian Government, and I am speaking of the CL-44.

Although we feel that we have no existing requirement for U.S. manufactured cargo aircraft, we foresee a strong possibility that we will require pure jet aircraft within the next 3 to 5 years.

Both Boeing and Douglas have indicated that they plan to produce all-cargo versions of the Boeing 307 and DC-8 jet passenger aircraft, and Lockheed Aircraft Co. is well along in its production of the C-141 cargo jet, which is designed to provide much greater lift and substantially lower unit costs.

It remains to be seen whether the converted passenger jets will produce unit costs which are lower than those produced by the CL-44.

It is clear, however, that the pure-jet aircraft will have a significant speed advantage which may have an effect on our ability to compete in the market. In any event, it is almost a certainty that the next generation of freight aircraft will be pure jets and we will have an urgent need for such aircraft in order to remain competitive against other U.S.-flag carriers and the many foreign airlines with whom we compete.

In considering the proposed legislation, it must be remembered that the various committees of Congress, the President, and the Department of Defense have repeatedly emphasized the fact that the primary deficiency in our military airlift capability is in long-range cargo aircraft.



This deficiency was underscored by the Department of Defense report titled "The Role of the Military Air Transport Service in Peace and War" which included the "Presidentially Approved Courses of Action," issued in February 1960, which declared:

Military readiness: Existing deficiencies in cargo airlift capability adversely affect military readiness. There is not sufficient commercial cargo capability to accommodate the military wartime traffic which could otherwise move in commercial aircraft.

The quantitative deficits in commercial capability to meet wartime needs are such that the continuity of the oversea pipeline cannot be assured in cases of emergency and forces whose operations are geared to airlift support may be deprived of airlift at a time of urgent need.

\* \* \* \* \*

The overall cargo airlift situation is serious and unless action is taken to modernize and expand the national cargo capability, both military and commercial, effective airlift support cannot be assured the Armed Forces.

Further, unless cargo capability is modernized and expanded, the Department of Defense and the Nation will continue to be denied efficient and economical airlift service.

The objective of encouraging the development of new and modern all-cargo aircraft was also recognized in the so-called Project Horizon report, "Report of Task Force on National Aviation Goals, September 1961," where there is set forth as one of the "national aviation goals for 1961-70":

Support and encourage accelerated development of the civil air-cargo industry in a manner that will contribute in peacetime to the economic growth of the Nation and of the world and will, as well, supply a fleet of efficient cargo aircraft to meet any military emergency.

The serious cargo airlift deficiency in the CRAF program was affirmed by Gen. Joe Kelly, commanding general of the Military Air Transport Service in a panel presentation to the press at the Air Force convention on September 22, 1961.

General Kelly stated:

Since all planned passenger requirements will soon be satisfied by civil jets, the only deficiency in CRAF equipment is in cargo capability. The delivery in the near future of 17 Canadair CL-44 to 3 CRAF carriers will mean some improvement in this area.

The fact that the aircraft which would be acquired under the proposed legislation covering all-cargo aircraft is urgently needed in support of the national defense is a most important reason for approving an adequate guaranteed loan program for all-cargo carriers.

In addition, such a program will provide important support to the cargo carriers in their efforts to acquire and maintain modern and fully competitive aircraft in the development of trade and commerce for the United States.

The present law fixes a \$5 million limit on all-cargo loan guarantees. We urge that the amount be increased to \$20 million for the cargo carriers.

The price of modern cargo aircraft is such that \$20 million may well be required for a minimum fleet. Pan American World Airways has announced that the two cargo jets which it recently ordered cost more than \$13 million for the two.

It would appear that the cost of cargo jets for a carrier not now operating the same type of aircraft would be substantially greater, since it would involve the purchase of many spares which Pan American does not have to buy, since they already operate the basic 707 airplane.

We have found that a fleet of five turboprop aircraft is close to the minimum size for efficient operation. It is reasonably apparent that at least three jet aircraft would be the minimum which could be operated effectively.

For this reason we urge that the maximum guarantee for all-cargo carriers be increased to \$20 million.

The inclusion of the all-cargo carriers in the guaranteed loan program is endorsed by the "President's Task Force on National Aviation Goals" (Project Horizon) issued in September 1961, which recommended:

While it is not clear that direct subsidization of cargo services is presently warranted, we are of the opinion that indirect aid should be provided in the form of Government support of air-cargo services for mail and military cargo, and guaranteed loan legislation subject to the most detailed scrutiny by the Civil Aeronautics Board.

Mr. FRIEDEL. Thank you for a very fine statement. I understand you have to appear before the Senate and will ask the Members if they have any questions?

Mr. FITZGERALD. I have a problem and I have not been able to avoid these two commitments coming right together.

Mr. FRIEDEL. Mr. Staggers, any questions?

Mr. STAGGERS. No questions. I think your statement is well put. At the present time I gather from your statement that you just do not need this but you are looking into the future for this and for others in the event of any emergency?

Mr. FITZGERALD. Yes. Mr. Staggers, I think the primary argument we can make in support of this legislation is not so much our personal and private interest which is substantial, but the fact that this probably will and in any case may, have the effect of increasing the modern cargo airlift for the Department of Defense.

That is more important than our own interests. To me that transcends any argument about private rights in this case.

Mr. STAGGERS. As I say, I want to emphasize again, most of your airline is equipped with CL-44's and you are looking ahead to the future as to what you might need?

Mr. FITZGERALD. We foresee the time when this may be very vital to us and may make an entire difference to us in the future because as Mr. Adams explained, our problem of financing is difficult.

We are having problems with our present financing since we have a 5-year limit under our present financing and we have high-interest rates and it has almost put us out of business a couple of times.

Mr. JARMAN. Am I correct in understanding you to say that Seaboard has no immediate need for this kind of financing?

Mr. FITZGERALD. We had assumed that this would not apply to foreign aircraft. It would be very helpful to us if we could have it apply to one or two additional CL-44 aircraft, and I think you could make the argument that that would be of benefit to the Government.

But we had sort of assumed that it would not be, that it would be limited to U.S. manufactured aircraft. But if it could be expanded to include foreign-manufactured aircraft, that is aircraft which are valuable to our national defense, it would be of benefit to us and aside from the future benefit.



Mr. JARMAN. Would the Smathers amendment limit this?

Mr. FITZGERALD. No, but I thought it was implied. Maybe I was wrong in my assumption.

Mr. JARMAN. I am just asking for information.

Mr. FITZGERALD. I do not know. The Smathers amendment does not have anything specific on it; neither does the present legislation, as I understand it.

Mr. MACDONALD. I just have one question if Mr. Staggers will yield.

Sir, I appreciate your interest in national defense and I am very pleased to hear you say this.

What I do not quite understand is, if it is a matter of national defense, why the Defense Department does not build their own aircargo planes?

Mr. FITZGERALD. The Defense Department is building a very substantial number of its own aircargo aircraft.

Mr. MACDONALD. You say you only need two more. Do you believe it would put their budget out of balance if they had money to build two more of these aircraft?

Mr. FITZGERALD. These are aircraft that are in addition to the basic defense requirement and they are a standby fleet, in effect, although they are used also in support of MATS currently.

It is very expensive to maintain an airplane that you do not need all the time, and we can use them in the commercial service at little or no expense to the Government and have them available as additional airlift when the Department of Defense needs them.

Mr. MACDONALD. Who are your main competitors in this field?

Mr. FITZGERALD. Pan American, KLM, Swissair, TWA, Alitalia Airlines.

Mr. MACDONALD. I did not know TWA did cargo service?

Mr. FITZGERALD. They have a North Atlantic certificate.

Mr. MACDONALD. What percentage, if you know, of their miles flown are cargo?

Mr. FITZGERALD. You mean all cargo?

Mr. MACDONALD. Yes.

Mr. FITZGERALD. They carry a very substantial amount of cargo in the jet bellies, you know. It is small.

Mr. MACDONALD. That is mainly mail, is it not?

Mr. FITZGERALD. No, no. It is a lot of freight, also; I mean more freight than mail.

Mr. MACDONALD. Do you have any mail contracts?

Mr. FITZGERALD. We carry the mail, yes. There is no contract as such. We have the certificate authority to carry the mail.

Mr. MACDONALD. Have you ever received from the Government a payment for carrying the mail?

Mr. FITZGERALD. Oh, yes; and a substantial part of our revenue is mail.

Mr. MACDONALD. To what extent?

Mr. FITZGERALD. Last year, we had total revenues of \$20,924,892 transport revenues, and of that \$5,187,183 was mail.

Mr. MACDONALD. I did not follow the figures.

Mr. FITZGERALD. Roughly, \$21 million, of which roughly \$5 was mail. As a matter of fact, if we did not have the right to carry mail

it is doubtful if we could compete in the market because the mail has a higher value.

If your competitors have a lot of mail and you do not, we do not have the right mix of revenue.

Mr. MACDONALD. Do you happen to know who gets the bulk of the mail contracts?

Mr. FITZGERALD. Pan American carries, roughly, 50 percent of the transatlantic mail; a little more than that.

Mr. MACDONALD. And how much do you get?

Mr. FITZGERALD. Right now we are getting 8.9 percent.

Mr. MACDONALD. 50 point as to 8.9?

Mr. FITZGERALD. Yes.

Mr. MACDONALD. Thank you.

Mr. FITZGERALD. We have gotten more than that in the past but it has gone down greatly.

Mr. JARMAN. Mr. Chairman, I have two or three questions I would like to ask.

We understand that Seaboard is currently applying for the right to carry passengers both on a topoff basis and in groups of 25 or more?

Mr. FITZGERALD. Yes, sir.

Mr. JARMAN. And that was testified to yesterday?

Mr. FITZGERALD. Yes, sir.

Mr. JARMAN. In connection with these applications, Mr. Fitzgerald, isn't it the Seaboard position that it cannot make a go of it if limited to the transportation cargo only?

Mr. FITZGERALD. No, we say it is going to be very difficult if we do not have some interim help which is somewhat comparable to the very large amount of help that the passenger carriers had in the form of direct subsidy.

This is an interim thing we are talking about.

Mr. JARMAN. I am not clear on that. The interim request is for what?

Mr. FITZGERALD. Well, we requested the authority to carry so-called top-off passengers.

Mr. JARMAN. Which would be on an individual ticket basis?

Mr. FITZGERALD. Yes, for 1 year and that was a proposition we thought would not only be beneficial to us but also to the traveling public since it would make available a rather austere standby service for those people who could not afford to pay the regular jet fare.

We propose to charge \$133 across the Atlantic, and you do get a fare like that if you are a member of 25 or more but you cannot get it individually, and there are a great many people who do not travel because of the price.

We tried to limit the diversion from the passenger carriers by putting it on the basis where the passenger would have to stand by until 6 hours before departure before he would know whether he could go or not.

We suggested that it be tried for 1 year but we have not been successful in getting it approved. Recently, when IATA approved the 25-passenger-group fare we asked for temporary examination which would permit us to carry groups of 25 on our cargo planes.

You understand both of these are on cargo planes?

Mr. JARMAN. Yes, I understand.



Mr. FITZGERALD. And slip in a few seats here and there. It is something akin to riding a freighter on the water except it is a lot faster.

Mr. JARMAN. I am frank to say that the real concern I have over this particular proposal, the so-called Smathers amendment, is the danger that I see in the future of adding to the already highly competitive and overcrowded passenger field.

Mr. FITZGERALD. I am glad you mentioned that.

Mr. JARMAN. Particularly in light of our foreign competitors who have been given such liberal treatment in our own country. Their landing rights have placed them in a highly competitive position with our American flag carriers. That concern lies at the basis of a number of the questions that I have been asking with reference to the Smathers amendment.

Mr. FITZGERALD. Could I make a comment on that, Mr. Jarman?

I think that we would not object to anything that made it clear that these would be cargo aircraft. Now, there is a very substantial difference between a cargo plane and a passenger airplane.

You can interchange them but a real cargo airplane has equipment in it, it has beefed-up floors and many features which are not necessary in a passenger aircraft and which are uneconomic burdens.

Mr. JARMAN. Would you be agreeable to a provision that the aircraft acquired through Government loans under this legislation be used only in scheduled cargo service?

Mr. FITZGERALD. I want to say this: I think it would probably make the legislation impossible from our standpoint because the military insists that when we use the aircraft in their service that it be convertible aircraft and we have equipped our aircraft so you can put temporary seats in, these collapsible seats and put in certain collapsible equipment and it is nothing like the thing you get on Pan American, and we would need to have that ability in order to use them effectively in support of the military.

This is one of the MATS requirements that the aircraft be convertible. How long is this limitation going to go on? Suppose we sell it? Do we carry it on there that nobody can use it in passenger service?

You put such a stigma on the airplane I doubt it would be very feasible to get anyone to lend you the money. If you can figure out some way so we do not have to buy a plush jet like PanAm or TWA we would be agreeable to that.

Mr. JARMAN. As a followup to the inquiry as to your application for top-off authority and in groups of 25 or more, if either of these passenger rights are granted to Seaboard by the CAB, would not Seaboard lose its status as an all-cargo carrier and its eligibility for guaranteed loans under your proposal?

Mr. FITZGERALD. Well, that may be. I have not thought of that. Technically, you could argue we were no longer an all-cargo carrier because we carried some passengers on our cargo flights. I just do not know.

Of course, if you give us the right to carry passenger top-offs, our need won't be so great, not you, but the CAB.

So far they have turned us down once and they have tentatively turned us down again.

Mr. JARMAN. You have mentioned your plans for acquiring three additional CL-44's?

Mr. FITZGERALD. We are talking about two.

Mr. JARMAN. Is that predicated on anticipation of obtaining the right to carry passengers?

Mr. FITZGERALD. No, sir; not at all. It is predicated on the hope we are going to get some military traffic.

Mr. JARMAN. You mention on page 4 of your statement that your losses totaled over \$11 million over the past 2 years?

Mr. FITZGERALD. Yes, sir.

Mr. JARMAN. In the light of that record of the past 2 years, would you anticipate that if all-cargo carriers are included under this legislation Seaboard would be financially in a position to carry its payments under loans that were guaranteed by the Government?

Mr. FITZGERALD. Yes, sir; and I assume that whoever examines this loan will have to make the determination that we can before we receive it.

The point is that the losses we have had in the past 2 years were accumulated during the period when we were operating Constellation aircraft which is an airplane that cannot make a profit at the present time in the cargo business.

The CL-44 has very substantially improved our prospects of operating a profitable service. It carries almost twice as much cargo and the operating cost is only slightly more.

Mr. JARMAN. You mentioned the assistance you have had from the Canadian Government in financing aircraft under an arrangement which is basically comparable to the guaranteed loan program under consideration in our committee?

Mr. FITZGERALD. Yes.

Mr. JARMAN. You have also mentioned that the planes you purchased are manufactured in Canada by a subsidiary of General Dynamics. It is my understanding that Standard Oil of New Jersey and General Dynamics do have a large stake in Seaboard?

Mr. FITZGERALD. Yes.

Mr. JARMAN. In approving the financial arrangement, did the Canadian Government look into the possibility of Seaboard getting its financial help from Standard of Indiana and General Dynamics rather than coming to the Canadian Government for a guarantee on a loan?

Mr. FITZGERALD. I do not know the answer to that question, Mr. Jarman. But let me tell you that we have great difficulty in getting any additional financial support from these people.

Now they have been sort of forced to go along with us for a while because if they do not we do not know where else to go.

But they have an investment in the company essentially because they were creditors and the company at one time was not able to pay off completely so they made arrangements so it would be possible for the company to continue operating until they got these airplanes in-being. The theory that we have an untapped source of capital there is completely wrong and just as no other airline that has wealthy stockholders can assume that they can go to them at will.

The fact that Mr. Hughes owns TWA would not eliminate their need for bank financing as has been very well demonstrated.



Mr. JARMAN. How much of Seaboard does Standard Oil of New Jersey own?

Mr. FITZGERALD. They were given 200,000 shares. They exchanged some debt for 200,000 shares recently with the understanding they were going to dispose of it promptly.

Let me see if I can find that exact figure here.

Mr. Jarman, I do not have the exact figures on how much Esso has. They not only have some equity but they also have some debt.

I would be glad to furnish that.

Mr. JARMAN. Let me ask that you furnish the committee what Standard Oil of New Jersey and General Dynamics own of Seaboard stock, and what debt Seaboard owes the two companies.

(The following letter was submitted for the record:)

SEABOARD WORLD AIRLINES, INC.,  
Washington, D.C., May 17, 1962.

Hon. JOHN BELL WILLIAMS,  
Chairman, Interstate and Foreign Commerce Committee,  
House of Representatives, Washington, D.C.

DEAR MR. WILLIAMS: Pursuant to the request of Mr. Jarman on page 139 of the transcript of hearing on H.R. 10129, it was requested that I furnish for the record the amount of stock owned in, and indebtedness to, Seaboard World Airlines, Inc., by Standard Oil of New Jersey and General Dynamics Corp.

Our records indicated that Canadair Ltd. (a subsidiary of General Dynamics) owns 250,000 shares of the company's common stock and is the holder of debentures and other evidence of indebtedness totaling \$24,742,835. This includes \$1,020,000 principal amount of the company's 6 percent subordinated cumulative income debentures, which are entitled to 33 1/3 votes per \$100 principal amount. The income debentures and common stock owned by Canadair are subject to a voting trust agreement running until November 1, 1968, with the United States Trust Co. of New York as voting trustee, under which the voting trustee has agreed to vote such securities in accordance with the recommendations of the company's management.

Esso International, Inc., holds 200,000 shares of the company's common stock and, in addition, holds notes totaling \$500,000 due December 31, 1963.

Very truly yours,

RICHARD A. FITZGERALD,  
Vice President, Washington Affairs.

Mr. JARMAN. A final question along this line: I understand that you take the position that you feel that there would or might be difficulty in getting additional financial help from these large companies who are a part of Seaboard?

Mr. FITZGERALD. Yes, sir. They have already put a lot of money in the company and I think they feel that they have put as much in as they want to. They do not want to put more in.

They have been forced to do that. This is not only my feeling but a very definite experience in the last few months of getting them to go along with further financing.

Mr. JARMAN. Thank you very much.

Thank you, Mr. Chairman.

Mr. FRIEDEL. The meeting will stand in recess until 2 this afternoon.

(Whereupon, at 12:10 a.m., the subcommittee recessed, to reconvene at 2 p.m., the same day.)

AFTERNOON SESSION

Mr. WILLIAMS. The committee will come to order, please.

Our first witness this afternoon is Mr. O. Roy Chalk, president of the Trans Caribbean Airways.

**STATEMENT OF O. ROY CHALK, PRESIDENT, TRANS CARIBBEAN AIRWAYS**

Mr. CHALK. Mr. Chairman and other distinguished members of this committee, my name is O. Roy Chalk, and I am president of Trans Caribbean Airways, a certificated airline holding authority from the Civil Aeronautics Board to perform scheduled operations between New York City, San Juan, P.R., and Aruba, the Netherlands Antilles. I am most grateful for this opportunity to appear before you in support of H.R. 10129, which would extend the aircraft loan guarantee program for an additional 5 years, and to request your favorable consideration of an amendment to that bill which would extend the benefits of the loan guarantee program to Trans Caribbean Airways.

As you know, Public Law 85-307, commonly called the Aircraft Loan Guaranty Act, has, for the last 5 years, permitted the local service, Hawaiian, intra-Alaska, mainland-Alaska, intra-Puerto Rico, Florida-British West Indies and helicopter carriers successfully to obtain financing for aircraft reequipment otherwise unavailable to them on reasonable terms by placing the credit of the United States behind loans to such carriers for the purchase of aircraft which are found by the Civil Aeronautics Board to meet the standards set forth in that act. Before this committee at the present time is H.R. 10129, which would extend the authority conferred by this act for another 5 years; a measure which Trans Caribbean Airways wholeheartedly endorses as a carrier currently experiencing the same problems which initially persuaded the Congress to enact the loan guarantee program—that of obtaining capital for the purchase of aircraft on reasonable terms.

At the time Public Law 85-307 was approved by Congress in September of 1957, however, Trans Caribbean Airways had not yet become a certificated, scheduled air carrier, and was, therefore, not included as a carrier eligible for a Government guarantee. H.R. 10129, in extending the authority conferred by this act, contains no provision for including within the scope of the guarantee program carriers certificated subsequent to the passage of Public Law 85-307. It is thus to remedy this anachronism that my remarks today are directed requesting your favorable consideration of an amendment in the form attached hereto which would permit the grant of loan guarantees to Trans Caribbean Airways.

Although not certificated as a regularly scheduled air carrier until November of 1957, Trans Caribbean Airways conducted extensive operations as a nonscheduled carrier from the time of its organization in 1945.



From that time until it commenced certificated scheduled operations in March 1958, Trans Caribbean Airways operated flights carrying more than 175,000 passengers a total of more than 324 million passenger-miles. Prior to November 1955, Trans Caribbean carried passengers and cargo between points within the United States, its possessions and territories, and between the United States and foreign points, on a nonscheduled basis in charter and individually ticketed and waybilled services, and operated flights in domestic and foreign air transportation under contracts with the Armed Forces and various civilian organizations. Thereafter, until commencement of certificated scheduled passenger and cargo operations between New York City and San Juan, in March 1958, Trans Caribbean also operated as a "supplemental" air carrier in limited scheduled service, primarily confined to the New York-Puerto Rico route.

In November of 1957, subsequent to the passage of the Guaranteed Loan Act, with the approval of the President, the Civil Aeronautics Board awarded a certificate of public convenience and necessity to Trans Caribbean to carry persons and property between New York City and San Juan, on an unlimited regularly scheduled basis. Service under this certificate was commenced in March 1958. Subsequently, in January 1960, the CAB also granted temporary authority to Trans Caribbean to extend its routes from San Juan, P.R., to Aruba, the Netherlands Antilles. Since the commencement of certificated service in March 1958 through 1961, Trans Caribbean carried more than 400,000 passengers in its scheduled low-cost services.

As a result of its early experience in the New York-San Juan market, Trans Caribbean became aware of the extraordinary demand for low-cost air transportation in this market and the need for specialized service specifically tailored to this demand. It was on the basis of this need and the concentrated attention which Trans Caribbean would provide this market that the Civil Aeronautics Board and the President authorized the entry of Trans Caribbean on this route—an action noted by the Civil Aeronautics Board in its release of the decision as "an historic step in U.S. commercial aviation marking the first transition of a supplemental carrier to certificated passenger-carrying status in a major market."

To fulfill the unique requirements of this market, Trans Caribbean pioneered the development of low-cost thrift fares which, on a per mile basis, became the lowest in the scheduled air transportation industry. The entry of Trans Caribbean's specialized certificated service in the New York-San Juan market, in competition with the well-established Pan American World Airways and Eastern Air Lines, produced the expected benefits to the public, and a very sharp increase in traffic resulted together with even sharper impact on availability of low-fare service.

Until late in 1961, Trans Caribbean operated its New York-San Juan service exclusively with the DC-6B piston aircraft. It presently utilizes a DC-8 fan jet in high seats capacity configuration, 168 seats, by the way, and a DC-6B. A second DC-8 is on order, and is expected to be available for operations in early summer of this year.

From this brief description of Trans Caribbean's history of operations and present status, it is apparent that this airline is not a large company; and yet it is in competition for traffic with two of the largest

carriers in the industry. Competitive circumstances and the unusual characteristics of Trans Caribbean's specialized routes have made imperative its provision of jet service between New York and San Juan, for it is only by operating large-capacity, high-density jet aircraft that Trans Caribbean can continue to provide the low-fare thrift service which it pioneered and which the traveling public requires, in the face of ever-rising costs. But jet aircraft of the type needed by Trans Caribbean have an acquisition cost exceeding \$6 million apiece. And Trans Caribbean must seek financing for such aircraft in the same market with air carriers many times its economic size and with carriers of comparable size with Trans Caribbean that can offer financing institutions the security of Government guarantees for their loans.

In recently seeking financing for the first of its DC-8 fan-jet aircraft, these economic facts were forcefully made evident to Trans Caribbean. Because of its limited route structure, specialized operations, and the competition which exists for financing by other carriers in a position to offer greater security for borrowed funds, Trans Caribbean found that the only arrangement for financing available to it at the time was a lease-purchase arrangement providing for high rate payments, well above the going market interest rate available to carriers eligible for Government guaranteed loans.

This disparity of financing costs is best illustrated by citing the example of Pacific Northern Airlines, a carrier obtaining financing for the acquisition of two jet aircraft at approximately the same time as Trans Caribbean's purchase of one DC-8. In most respects, Pacific Northern's operation is similar to that of Trans Caribbean. It also is a comparatively small carrier; and it provides service predominantly over a nonstop route between Portland and Seattle, on the one hand, and Anchorage, Alaska, on the other, quite similar in length to Trans Caribbean's New York-San Juan route. Pacific Northern, furthermore, was also taking its first step toward obtaining jet equipment. However, whereas Trans Caribbean found it necessary to pay high carrying charges for its unassisted aircraft financing, Pacific Northern, under the aegis of the loan guarantee program was able to obtain financing at an interest rate of 5.5 percent per annum; a striking disparity. I think that the terms of these two financing arrangements—comparable in most respects as to carrier characteristics, aircraft, and time of financing—speak with much more persuasion than I possibly could with regard to the effectiveness of the guaranteed loan program, and the reasonableness of the financing terms available to Trans Caribbean without eligibility for a guaranteed loan.

And Pacific Northern's financing under the loan guarantee program is not unique. In no instance has a carrier obtaining a loan guarantee had to pay in excess of 6 percent interest per annum; and this rate of interest has been the exception rather than the rule. In most cases guaranteed loans have carried a rate of 5.5 percent or less.

Now that Trans Caribbean approaches the time it must obtain financing for its acquisition of a second jet aircraft, the seriousness of its inability to offer Government support for a purchase loan has become even more acute. While discussions we have had with various financing institutions have indicated that adequate money is available to Trans Caribbean, the terms required to obtain such financing are



clearly not reasonable when viewed in relation to the terms available to comparable carriers which are in a position to offer the security of a Government guarantee. And as additional aircraft are required for Trans Caribbean's operations in the future, the terms for necessary financing will move further and further from the zone of reasonableness, and from that available to carriers eligible to obtain Government guaranteed loans.

The necessity of incurring higher interest rates and more restrictive credit terms than other carriers with whom Trans Caribbean must compete for available capital, inevitably places Trans Caribbean in an unfair position. Not only is Trans Caribbean's earnings position thereby weakened, but the service it performs for the public becomes adversely affected. And the possibility that fares in its principal New York-San Juan market will ultimately have to be increased cannot be overlooked; a market so unusually dependent upon low-level thrift fares.

It is thus on the basis of correcting an historical circumstance of timing that Trans Caribbean today requests this committee to consider inclusion of Trans Caribbean as a carrier eligible for Government guarantee of aircraft purchase loans, now that the basic legislative authority for this program is up for review. It is our belief that had Trans Caribbean already received its certificate for regularly scheduled service at the time Public Law 85-307 was enacted, it too would have been included among the eligible carriers just as Pacific Northern Airlines and Alaska Airlines, which conduct predominantly long-haul operations over similarly situated nonstop routes in competition with major trunklines, were made eligible in the basic legislation. Lacking this initial eligibility, Trans Caribbean has keenly felt the inequity of being obliged to compete for available capital with carriers of comparable means and route structures which have the ability to obtain the benefits of Government guaranteed loans. The difference in eligibility has, in the past, caused Trans Caribbean to suffer substantially as indicated above, and with future capital requirements only months away, this disparity of financing costs will continue to grow, to the detriment of Trans Caribbean and the valuable pioneer thrift service it provides for the public in the unique New York-San Juan market.

While it is true that Trans Caribbean's service is provided without Government subsidy support, a status not common to most of the carriers initially made eligible for guaranteed loans, this obvious attribute should not be held against it. Trans Caribbean's responsibilities to the public are the same as those of all other eligible certificated carriers, and the fact that subsidy support is not available to it only compounds its difficulty in obtaining financing on reasonable terms. Moreover, Mackey Airlines, which similarly conducts subsidy ineligible operations is one of the carriers already authorized to receive Government loan guarantees. Mackey, in fact, presently has an application for guarantee pending before the Civil Aeronautics Board.

It similarly cannot be said that the fact that Trans Caribbean operates under a temporary certificate of public convenience and necessity precludes its eligibility for loan guarantees. This again is a major factor increasing this carrier's difficulty in obtaining financing on reasonable terms without a guarantee, and the Congress has previously

authorized the three helicopter operators and Mackey Airlines, each also holding only temporary certificates, to receive loan guarantees. New York Airways, Chicago Helicopter Airways, and Los Angeles Airways each has been granted guarantees by the Board under this authority, and Mackey's application, as indicated above, is currently pending.

Trans Caribbean, moreover, offers an advantage which few of the other guarantee eligible carriers can provide—that of making available to the national defense the jet aircraft it acquires through the Civil Reserve Air Fleet program (CRAF).

As a matter of fact, we are presently in negotiation with the leading manufacturers for the purchase of jet cargo aircraft, convertible both for cargo and passenger use as is the DC-6A.

Trans Caribbean's presently operated DC-8 jet has been designated as a CRAF program aircraft which in time of emergency will be available for military defense operations. The second DC-8 soon to be acquired similarly will be included in CRAF. And to the extent that Trans Caribbean's eligibility for loan guarantees will enable it to acquire additional jet aircraft more easily on reasonable terms, these too will be available through CRAF for the defense of our Nation.

The Congress has given a mandate to the Civil Aeronautics Board to promote air transportation by all feasible means in the interest of the national defense, and commerce of the United States, and toward this end has made available Government loan guarantees to the smaller certificated carriers who are otherwise unable to obtain necessary financing for the purchase of needed aircraft on reasonable terms. The loan guarantee program during its first 5 years of operations has been eminently successful in fostering this goal without the expenditure of a single taxpayer's dollar.

Trans Caribbean believes that the program should be extended for an additional period of 5 years in accordance with H.R. 10129, and to correct the historical omission of an otherwise eligible carrier that received its certificate of public convenience and necessity after the initial enactment of this program, should also be extended to include Trans Caribbean Airways in accordance with the proposed amendment attached to this statement. Both the national defense, through CRAF availability of Trans Caribbean's jet aircraft, and the commerce, through improved service to the public at continued low-cost thrift fares—Trans Caribbean's specialty—will thereby be materially advanced.

I am pleased to inform this committee that at a hearing held this morning before Senator Monroney's committee, Senator Vance Hartke introduced an amendment which in effect would correct the inequity which I have called to the attention of this committee.

I am also informed that Congressman Friedel is likewise considering the submission of an amendment to correct the inequity which I have called to your attention, so that H.R. 10129 would include those carriers, the major portion of whose operations are between the United States and Puerto Rico.

I also understand that Under Secretary Martin has proposed an increase in the original bill to the amount of \$15 million. I heartily endorse such a proposal because I feel that it has proven itself at \$5 million at no cost to the United States, and it can certainly do a much better job if more money were available.



I want to thank you sincerely for permitting me this opportunity to appear before this committee and to state the views of my company.

Mr. WILLIAMS. Thank you very much. Mr. Chalk, is Trans Caribbean presently operating at a profit?

Mr. CHALK. I would say just about, just about; a pretty marginal operation.

Mr. WILLIAMS. In the event that Trans Caribbean failed to meet its operating costs, would it be eligible for subsidy?

Mr. CHALK. No; we are not a subsidized carrier.

Mr. WILLIAMS. Are you authorized to carry mail?

Mr. CHALK. No; not between New York and Puerto Rico.

Mr. WILLIAMS. How many other airlines find themselves in the same category?

Mr. CHALK. None whatsoever.

Mr. WILLIAMS. Do we have any airlines which are operating the major portions of their operations between California and Hawaii and California and Alaska?

Mr. CHALK. Yes; there are airlines which operate between California and Alaska, but they are eligible for the benefits of this act. We are comparable to the Pacific Northern Airlines.

I called the attention of this committee to that fact. This is one airline that we are comparable to. As a matter of fact, we are about the same length. It is about 1,450 miles between Seattle and Anchorage, and they do have subsidy but we do not. They do have the benefits of this act on financing. We do not have the benefit. We are performing a major public service and we are entitled to make some money, but on the basis of our costs and financing charges such as this, it is extremely difficult. We are competing against the two giants of the industry, Pan American and Eastern.

Mr. FRIEDEL. Mr. Chalk, I would like to congratulate you on your very fine statement, and I do intend to offer the amendment in executive session under the usual procedure. I think it is a fair request, and I will offer it.

Am I correct, in your statement when you said that you are just about breaking even or making a little money?

Mr. CHALK. We are making a little money.

May I add to that that we have been competing during the past year with piston engine aircraft against jet, and that is a pretty difficult job. So I would say during this past year, the year just passed, that was the toughest of all. In previous years we have been able to do so.

Mr. FRIEDEL. I understand you have one jet now and you are paying about 8 percent in financing costs for that, and reducing that cost to 5½ percent would mean that much more profit to your company.

Mr. CHALK. That is correct, if we were able to save the difference.

Mr. FRIEDEL. If you could come under this act, you could finance the second plane and have better service, and you would probably be in a better position to repay the loan?

Mr. CHALK. That is correct.

As a matter of fact, we would be in a position to order a third jet, which we would like to do, which could operate for the military in its cargo-passenger operations.

Mr. FRIEDEL. The Commerce Department suggested this morning that they would like to have jurisdiction over the loans. The CAB has the jurisdiction now. I will not try to embarrass you by asking you which you prefer.

Mr. WILLIAMS. Thank you, Mr. Chalk.

The next witness is Mr. Joseph C. Mackey, president of Mackey Airlines, Inc.

**STATEMENT OF JOSEPH C. MACKEY, PRESIDENT, MACKEY  
AIRLINES, INC.**

Mr. MACKEY. Mr. Chairman and other distinguished members of this committee, I am Joseph Mackey, president and chairman of the board of Mackey Airlines, a Florida corporation. It is our belief that the importance of this public law to our industry as a whole will be adequately covered by other witnesses. In the interest of conservation of your time, we will therefore limit our testimony to our specific concern.

Our company has conducted scheduled operations for 10 years and operates a regular daily passenger service between Tampa, Fort Lauderdale, Palm Beach, Miami, Nassau, and other islands of the Bahamas. We are also authorized to serve Cuba. This service has been suspended—we hope, temporarily.

I wish to express my sincere appreciation for the opportunity you have given me to appear before you in regard to bill H.R. 10129. I represent our company in support of this bill. We are included in the present law and we would hope that our participation would continue.

Our company is in a somewhat different position from most of those affected by this bill. While the local-service carriers are faced with a controlled competitive position, we are not. Within the past 2 years we have been subjected to multiple foreign competition far beyond what the economics of our route system could be expected to stand. In our opinion, this situation is brought about by pressure of the State Department on the Civil Aeronautics Board. I am not here to discuss the right or wrong of this subject, but I merely point out that the fact exists. We are living in the only country in the world where a small business could even have the opportunity to compete for international air traffic. We are proud of the fact that we have been able to retain 70 percent of the total market on our route system in spite of the fact that we find ourselves in a competitive position with Bahamas Airways, a branch of British Overseas Airways Corp., which, in effect, is the British Government. Our competitive problem is also compounded by competing at the moment in secondary markets with Cunard Eagle Airways. These problems are mentioned for the purpose of showing the importance to our company of the bill here being considered.

I foresee the strong probability that by 1965 it will be necessary for us to acquire compact jet equipment similar to the Douglas model 2086 presently on the drawing boards. We feel that this development is inevitable whether or not such aircraft makes complete economic sense on our route system because of the competitive problems involved. Unfortunately, nothing has to make economic sense to our



competitors. All present indications are that this aircraft will fit our route system admirably. Primarily, I am pointing out that the competitive situation may require this move whether or not we normally would be entirely ready for it. Our one and only chance to acquire such aircraft when needed is through the relief provided by this bill.

Since the unit price of these aircraft will probably approach \$3 million, which would mean in the neighborhood of \$7 million for two units and associated spares, we strongly urge that the limits in this bill be increased to \$10 million as opposed to the \$5 million limitation of Public Law No. 85-307. We feel that any other carrier making a move in this direction would necessarily move with two or more units, which would make the \$5 million limitation inadequate.

Our company has recently been granted relief under the present public law which allowed us to purchase two DC-6's which are adequate for us to retain our proper competitive position at the moment. This action could not have been taken without benefit of the present law. Although the total amount of this loan was only \$820,000, it could not have been arranged without benefit of the present law. Without this help and, therefore, our ability to retain the major portion of the market, our continued existence would have been questionable. Thus, our 150 employees and 2,000 stockholders directly benefited while there was essentially no financial risk to the Government.

The most important advantage to flow from this bill may be overlooked. It is the fact that the law itself is a statement of confidence by the Government in the future of the aviation industry.

Mr. WILLIAMS. Does that conclude your statement?

Mr. MACKEY. Yes, sir.

I would like to comment on the administration of this bill. I find in my business experience that any bill, act, or even business statement is very difficult of good accomplishment. I find in my own business that I come up with a rule, but that without proper administration the rule fails.

My experience in watching the results of this bill in the past 5 years indicates to me an excellent, top-notch job of administration, and I would certainly hate to see something that we know is good gambled against something we know nothing about. I would like to see the administration stay where it is.

Mr. WILLIAMS. Mr. Mackey, with what airlines do you compete?

Mr. MACKEY. At the moment we are competing indirectly with Pan American and Cunard Eagle and directly with Bahamas Airways.

Mr. WILLIAMS. What other one did you say?

Mr. MACKEY. Cunard Eagle, a British scheduled airline.

Mr. WILLIAMS. Bahamas Airways is also a British airline?

Mr. MACKEY. Yes, sir.

Mr. WILLIAMS. I was very much interested in the statement that you made in your prepared statement where you say:

Within the past 2 years, we have been subjected to multiple foreign competition far beyond what the economics of our route system could be expected to stand. In our opinion, this situation is brought about by pressure of the State Department on the Civil Aeronautics Board.

Mr. MACKEY. Yes, sir.

Mr. WILLIAMS. Do you have any evidence of pressure that might have been brought to bear upon the Civil Aeronautics Board by the State Department?

Mr. MACKEY. Yes, sir. I do not have it with me, but I have letters from the State Department to the Board. Further, in the case where Cunard Eagle was authorized, the hearing examiner in the case stated if this was authorized, it could well be the end of Mackey Airlines and predicted an \$800,000 loss for our company if it was authorized. It was authorized, and I cannot see how the Board could do that without outside pressure.

Mr. WILLIAMS. Is Mackey Airlines eligible now under the present act for loan guarantees?

Mr. MACKEY. Yes, sir; we are eligible.

Mr. WILLIAMS. Then the chief basis of your testimony, I would gather, would be that you feel that the limits should be increased?

Mr. MACKEY. That is correct, and that the bill should be renewed.

Mr. FRIEDEL. I want to thank you for your very fine short statement.

In the second paragraph on the first page you say your company has been conducting scheduled operations for 10 years, a daily passenger service between Tampa, Fort Lauderdale, Miami, and Nassau. Could you tell us for the record what is your shortest and the longest run, in miles?

Mr. MACKEY. From Fort Lauderdale to Miami, which is 23, and the longest on our certificated operation would be Cuba to Nassau, 350, which we are not operating. The longest run we are operating at the moment would be 196 miles.

Mr. FRIEDEL. Would it pay to have jet service?

Mr. MACKEY. I spent several days recently in California studying this model 2086, and it appears to be headed for an economical operation on a 200-mile range and not too uneconomic in even 50- and 75-mile ranges.

Mr. FRIEDEL. What aircraft is that?

Mr. MACKEY. The Douglas model 2086, which is now on the drawingboard and a model exists and Douglas is trying to get enough orders to manufacture it.

Mr. FRIEDEL. Is that a jet?

Mr. MACKEY. Yes, sir, a twin jet.

Mr. WILLIAMS. It is a pure jet?

Mr. MACKEY. Yes, sir. It is smaller than the Caravelle and definitely designed for this type of operation.

Mr. FRIEDEL. In other words, you are in favor of the extension of this bill for five more years and to increase the loans from \$5 million to \$10 million?

Mr. MACKEY. Yes, sir, that is correct.

Mr. FRIEDEL. The most you have borrowed in guaranteed loans from the Government is \$820,000?

Mr. MACKEY. Yes, sir, that has just been concluded.

Mr. HARRIS. Mr. Chairman, before Mr. Mackey leaves, may I ask a question or two?

You say you do have an \$800,000 loan now?



Mr. MACKEY. Yes, sir, it has been approved. The actual paper-work has not been completed, but it has been approved by the Board.

Mr. HARRIS. That must have been since March 31?

Mr. MACKEY. Yes, sir. As a matter of fact, it was last Friday.

Mr. HARRIS. That was the first loan you had under this program?

Mr. MACKEY. That is correct.

Mr. HARRIS. I observe from the statement presented by the Board, that you have three DC-4's and one DC-6B.

Mr. MACKEY. We own three DC-4's. We have been operating the DC-6's under lease, and we are now purchasing.

Mr. HARRIS. This shows you own three DC-4's and lease two DC-6B's.

Mr. MACKEY. We lease two DC-6B's.

Mr. HARRIS. Are you in the passenger business only?

Mr. MACKEY. No, we handle freight, too, but it is supplemental.

Mr. HARRIS. Do you operate in the Caribbean area?

Mr. MACKEY. Yes, sir, in the Bahamas specifically.

Mr. HARRIS. Thank you, Mr. Chairman.

Mr. WILLIAMS. Thank you, Mr. Mackey.

Mr. MACDONALD. Actually my questions don't go to your testimony, but I was wondering if your company goes along with this imposition of a penalty on passengers who do not show for your airlines?

Mr. MACKEY. We are an international carrier, and we are not affected.

Mr. MACDONALD. Why are you not affected?

Mr. MACKEY. Because we are an international carrier.

Mr. MACDONALD. I see you have daily passenger service between Fort Lauderdale, Tampa, and Palm Beach.

Mr. MACKEY. That is correct, but our classification is international. In other words, we have another certificate, No. 145, that does authorize domestic service between those international points, but it is strictly supplemental, and we would fall within the requisite of an international carrier. We would presume that we are not covered by that.

Mr. MACDONALD. It only went into effect on May 1, but even on the domestic flights you would not be compelled to charge this penalty?

Mr. MACKEY. We are assuming that we would not, and we are not.

Mr. JARMAN. No questions.

Mr. MACKEY. Thank you, Mr. Chairman.

Mr. WILLIAMS. Our next and last witness is Mr. Winfield H. Arata. Mr. Arata is manager of market planning, Fairchild Stratots Corp., Hagerstown, Md.

**STATEMENT OF WINFIELD H. ARATA, JR., MANAGER, MARKET PLANNING, AIRCRAFT-MISSILES DIVISION, FAIRCHILD STRATOS**

Mr. ARATA. Mr. Chairman and distinguished members of the committee, the opportunity to express our thoughts regarding the continuation of guaranteed loan legislation is greatly appreciated.

Since initial enactment of this legislation, the class mail rate has gone into effect for the local airlines, as well as the continuation of Government support of operations of these airlines. These forms of

support are providing the environment wherein equity capital is being attracted to the airlines. As time goes on, this will improve the ability of the airlines to secure private financing. Even so, the Government guaranteed loan legislation is important enough that it should be renewed as an act of Congress.

The Fairchild organization has been intimately effected by this legislation. Prior to its enactment, Fairchild was just beginning the manufacture of the F-27 turboprop transport.

During this time period, i.e., 1956-57, the local airlines were somewhat an unknown quantity to financial institutions regarding the underwriting of new transports, as up to that time, surplus aircraft had been used.

At this time, referring to the previous period, when the trunk airlines were procuring jet equipment, the local airlines also deemed it necessary to begin their modernization programs. Since the individual net worth of the airlines was then quite limited, some means was necessary in order to permit modernization through normal banking procedures. The Government Guaranteed Loan Legislation Act of September 17, 1957 (71 Stat. 629), provided the mechanism for this modernization to begin.

At the time of the enactment of legislation and subsequent to this, Fairchild has been successful in selling F-27 aircraft to the following U.S. local airlines: Aloha, Bonanza, Northern Consolidated, Ozark, Pacific, Piedmont, Wien Alaska, and West Coast Airlines. Of these airlines, Aloha, Bonanza, Ozark, Pacific, Piedmont, and Wien Alaska utilized the guaranteed loan legislation in order to modernize with the F-27 aircraft. That is, all but two airlines utilized the loan provisions.

Since modern, intermediate range aircraft, with spares, represents an investment approaching \$1 million, it becomes obvious that complete airline modernization with this aircraft cannot take place when the maximum loan limit is only \$5 million. Therefore, at this time when the legislation is being reviewed for possible renewal, it is recommended that the loan limit be increased.

The legislation as enacted in 1957 made no provisions for scheduled all-cargo airlines. Senator Smathers has proposed an amendment to the bill, S. 2815, which would correct this shortcoming. This is a step in the right direction, as it will provide a means for the all-cargo carriers to modernize their fleets just as the local airlines have begun to modernize their flight equipment.

Present problems with the modernization of logair and quick-trans contractors would be minimized if the guaranteed loan legislation included the scheduled all-cargo operators. Such changes in the legislation would also no doubt allow these airlines to secure loans at a more reasonable interest rate. In the long run, a healthy air carrier industry operating at normal interest rates is to the advantage of the economy of this country.

The following recommendations are offered for consideration relative to the possible renewal of the guaranteed loan legislation:

1. The proposed bill by Senator Magnuson, S. 2815, dated February 7, 1962, for extending the act another 5 years should be enacted. At the end of this time period, another review can be made of the need for further legislation.



2. Increase the total loan value as specified in section 4, paragraph d, of the act, 71 Stat. 629, dated September 7, 1957, to \$15 million applicable only to new aircraft. While this increase in loan amount will not provide complete modernization, with class mail rate and equity value of the airlines increasing, this new value should permit the continuation of modernization with new aircraft which is desired and necessary.

3. Include all-cargo air carriers as recipients of the guaranteed loan legislation. It is believed that the all-cargo carriers are in as much need of help today as the local airlines were 5 years ago.

Since this legislation has been in force for 5 years and a modern aircraft has been in local airline service for almost 4 years, sufficient time has elapsed to establish the merits of the legislation, both to the airlines and to the airframe industry.

Thus, it can be concluded that continuing guaranteed loan legislation will help the local airlines and airframe manufacturers in the common task of local airline modernization. This modernization effort will provide jet-age passenger comfort to the local airlines, as well as improve operating efficiency to all-cargo airlines.

This modernization effort should help in the early reduction of subsidy that President Kennedy requested in his message on transportation to the Congress of the United States on April 4, 1962.

Thank you very much.

Mr. WILLIAMS. Thank you, Mr. Arata.

Mr. FRIEDEL. I am very glad Mr. Arata is here and represents Fairchild, which is built in Hagerstown, Md. I am from Maryland, although you are not in my district.

I am very much concerned, too. You say that the guaranteed loan program has helped the F-27?

Mr. ARATA. Yes, sir.

Mr. FRIEDEL. How many orders do you have on hand at the present time?

Mr. ARATA. We have just finished completing, and manufacturing, delivery of our 92d airplane. This is delivered to Bonanza Air Lines, one of the airlines I mentioned in the testimony.

We are building beyond that 15 additional aircraft on a one-a-month basis. This manufacturing rate of one a month is not the most efficient rate at which we would like to build them, but in our estimation and in working with our commercial market for airlines and executive aircraft, this seems to be the logical thing to do.

I think you realize that we are also talking to different Government agencies, primarily military agencies, with different versions of the F-27 with the idea that if acceptance of the airplane is secured, the quantity of aircraft would be larger than the numbers that we have been delivering to our present type of customer, and we would then be in a position to increase the monthly manufacturing rate.

Mr. FRIEDEL. Fairchild was hard hit and has a lot of unemployment.

Mr. ARATA. That is still true.

Mr. FRIEDEL. I know, and you are not getting enough defense contracts and not enough orders from the carriers. I am hoping that we can take up this slack by some of the carriers converting more to F-27's and help the industry in Maryland, and themselves as well.

Mr. WILLIAMS. Mr. Arata, Fairchild stopped manufacturing F-27's, did they not?

Mr. ARATA. Let me back up a little, if I may. In February of 1961, a year ago, a new management came on board with the company. They reviewed all of the manufacturing programs of the company, including the F-27. They concluded that there was a future for the F-27 and, as a result, at that time, which was a little over a year ago, steps were taken to continue the manufacture of the F-27.

This was done last year, initially picking up in the fall at the rate of one airplane per month. This rate is in continuation at the present time and, as I mentioned a few minutes ago, this manufacturing rate is scheduled on the current block of aircraft through the early fall of 1963. That is, we are providing this continuity both for our present customers and anticipated customers.

Mr. WILLIAMS. How many orders do you have?

Mr. ARATA. We have been building the aircraft and in a sense selling them upon delivery. We do not have what you would call a backlog, but we have been very fortunate in delivering airplanes to customers as they are manufactured.

Mr. WILLIAMS. Have you received any indication of a continuing demand for these aircraft on the part of the local service carriers?

Mr. ARATA. Yes, there is continued interest. We are negotiating with a few of them at the present time. The problems are the usual ones. At this stage, after an airplane has been in service and it is proven, it is not the technical aspects that are a point of discussion, but it is the financial aspects that are a point of discussion.

Mr. WILLIAMS. The aircraft, at the outset, I believe, ran somewhere around \$800,000.

Mr. ARATA. Initially the cost was a little under that. At the present time the base price is a little more than that.

Mr. WILLIAMS. Now it is close to a million dollars?

Mr. ARATA. The actual price that we are quoting to the customer, regardless of the quantity he has in mind, is \$890,000 for an airline F-27A.

Mr. WILLIAMS. That is rather heavy for these local-service boys to have to carry.

Mr. ARATA. Perhaps so. In turn, I could only pass judgment on that by reflecting the operating efficiency of some of the airlines which are using the airplane and particularly the one that General Adams mentioned this morning, Bonanza Air Lines, which was the first airline, either trunk or local, to have all-turbine aircraft equipment, in this case the F-27A.

Mr. WILLIAMS. The bells have rung for a quorum or rollcall in the House for the Representatives, so it is going to be necessary for us to adjourn. I regret that we did not have more time because there are quite a number of questions I would like to ask you. I will ask you one question, and then I am afraid that the committee will have to adjourn.

Do you have information, or could you supply this committee with information, based on your 40-seat capacity? Is that not the general configuration for airline service?

Mr. ARATA. That is correct.

Mr. WILLIAMS. And the DC-3, 24-seat configuration. Is that not the usual configuration?



Mr. ARATA. That is correct.

Mr. WILLIAMS. Could you give us an average cost per seat-mile of operation on a comparative basis between the F-27, the DC-3, and I would like to add in the Convair if I could.

Mr. ARATA. As you know, there is more than one version of the Convair. Do you want the Convair 240, which is considered more competitive, or do you want other Convair versions?

Mr. WILLIAMS. I would think that the Convair that is in most general use by general service carriers, whichever that might be.

Mr. HARRIS. That is the 240.

Mr. ARATA. Yes, sir.

Mr. WILLIAMS. I think that that information would help give the committee some indication of what kind of savings and economies might be effected by these airlines in a transition to the F-27 from the DC-3 or transition to the Convair from the DC-3.

Mr. ARATA. I would like to take advantage of that very much, if I may; to be more factual, I would like to deliver it to the committee rather than making my remarks at this time.

Mr. WILLIAMS. I have one more question, Mr. Arata, and then I am through.

As I understand it, Fairchild several years ago had some studies made on a contract basis with a Dr. August Raspet of Mississippi State College, which is now Mississippi State University, not to be confused with "Ole Miss," the University of Mississippi. I am informed that as a result of what might be called cleaning up on the airflow over the aircraft, that a given speed of one of your cargo aircraft, the so-called boxcar, at a given throttle setting, was increased rather considerably. I would like to have for my information and for what worth it might be to the committee some information about what Fairchild is doing in studying the subject of laminar flow and boundary layer control applications to their aircraft, if that information is available.

Mr. ARATA. I might mention I met Dr. Raspet on one of his visits to our plant in previous years. I do recall discussing this with him. I do not have any results here with me.

Mr. WILLIAMS. I had heard that he got some phenomenal results in his work.

Mr. ARATA. I would like to investigate this and direct the material to you.

Mr. WILLIAMS. Thank you.

(The following letter was received from W. H. Arata, Jr., dated May 14, 1962, to supplement his statement:)

FAIRCHILD STRATOS CORP.,  
AIRCRAFT MISSILES DIVISION,  
Hagerstown, Md., May 14, 1962.

HON. JOHN BELL WILLIAMS,  
Chairman, Subcommittee on Transportation and Aeronautics, Committee on Interstate and Foreign Commerce, House of Representatives, U.S. Congress, Washington, D.C.

DEAR MR. WILLIAMS: We want to thank your committee again for the opportunity we had to testify with regard to renewal of guaranteed loan legislation with respect to H.R. 10129.

Enclosure (1) supplies the information that you requested with regard to average direct operating costs per seat-mile for F-27, DC-3, and CV-240 aircraft. It can be noted that the F-27 offers the greatest possibility for operating profit

for users of the aircraft listed. For your information, the F-27 is powered by the Rolls-Royce Dart 6 engine and the F-27A by the Dart 7 engine. These operating costs are based on average stage lengths of local airline service. This distance is about 90 miles.

In regard to your question about Dr. Raspet, I find that he visited Fairchild on December 17, 1958. At this time, discussions were had with regard to his work at Mississippi State College and how it could be applied to improvements on Fairchild aircraft. Inquiries with our contracts department discloses no contract between the Fairchild organization and Dr. Raspet. Apparently only an informal relationship existed.

In addition to this, Fairchild has conducted many inhouse studies on boundary layer control and drag reduction. These studies coupled with information available from NASA are utilized by our engineering department for specific design efforts requiring boundary layer considerations.

If there is additional information that we can provide with regard to the hearings that we recently attended, please let us know.

Sincerely yours,

W. H. ARATA, Jr.,  
Manager, Market Planning.

ENCLOSURE (1)

*Average direct operating costs comparison, local airline service*

Manufacturer	Aircraft	Number of passenger seats	Revenue capability <sup>1</sup>	Flying operations	Direct maintenance	Depreciation	Direct operating costs, <sup>2</sup> seat-miles	Direct operating costs, seat-miles
			Percent					
Fairchild.....	F-27	40	167	\$0.4798	\$0.4422	\$0.925	101.45	2.536
Do.....	F-27A	40	167	.4531	.3948	.1355	98.34	2.458
Douglas.....	DC-3	24	100	.4086	.2306	.278	66.70	2.779
Convair.....	CV-240	40	167	.5102	.4681	.1056	108.39	2.710

<sup>1</sup> Revenue capability based upon average local service rate per passenger mile with the DC-3 capability equal to 100 percent.

<sup>2</sup> Cost data are based upon 12-month period ending Sept. 30, 1961, as reported to the CAB on form 41 schedule P-5.2.

Mr. WILLIAMS. The record will remain open for 5 days. The material the committee receives for the record may be inserted at this point.

(The material referred to follows:)

CIVIL AERONAUTICS BOARD,  
Washington, D.C., May 29, 1962.

HON. JOHN BELL WILLIAMS,  
Chairman, Subcommittee on Transportation and Aeronautics, Committee on Interstate and Foreign Commerce, House of Representatives, Washington, D.C.

DEAR MR. WILLIAMS: When the Board testified before your subcommittee on May 9, 1962, in support of H.R. 10129, a bill to extend the Loan Guaranty Act for an additional period of 5 years, we were requested to furnish additional information for the record.

There are attached five tables which set forth the factual information you have requested. Table A contains load factor data for Bonanza Airlines reflecting an exclusive DC-3 operation, a mixed DC-3 and F-27 operation, and an exclusive F-27 operation. This table also shows the effect of the introduction of larger equipment types into certain local service segments. Table B is a load factor comparison of F-27 and piston aircraft for selected local service carriers.



Table C shows the revenue ton-miles of property and mail carried in domestic operations on combination passenger-cargo planes and on all-cargo planes. Table D sets forth the operating revenues, broken down between passenger and cargo charters, of Seaboard World Airlines for the calendar year 1961, and table E shows United's operating expenses for Caravelle aircraft for the third and fourth quarters of 1961.

With respect to extending the applicability of the Loan Guaranty Act to the certificated route carriers for the purchase of all-cargo aircraft, the Board sees no need for such an extension, but would interpose no objection if the committee feels that this is desirable. Nor do we see any reason why the use of guaranty loan funds should be restricted to the purchase of American made all-cargo equipment. However, if the committee determines such a restriction to be desirable and in the public interest, the Board would not object to it.

The amendment proposed by Senator Hartke would amend section 3 of the Loan Guaranty Act by adding a new subsection (g) to extend the applicability of the law to carriers providing operations between the United States and the Caribbean area the major portion of which are conducted between the United States and the Commonwealth of Puerto Rico. We understand that the purpose of this amendment is to extend the applicability of the Loan Guaranty Act to Trans Caribbean Airways. The Board is not aware of any such need on the part of Trans Caribbean and is therefore opposed to the amendment. Moreover, the amendment as drafted is ambiguous and would appear to make eligible for guaranteed loans several certificated route carriers in addition to Trans Caribbean.

With respect to the transfer of loan guaranty authority to the Secretary of Commerce, the Board agrees in principle with the administration's proposal to transfer authority to the Commerce Department and wishes to point out that there is need for a close relationship between the Board and the Department in granting subsidies on the one hand and providing loan guaranties on the other.

Subsequent to the presentation of our testimony on May 9, the Board was advised by the Bureau of the Budget that there is no objection to the presentation of whatever statement the Board deems desirable on H.R. 10129 and the proposed amendment extending the loan guaranty program to all-cargo carriers, but that the Bureau, while not objecting to the extension of existing authority for 5 years, would be unable to support expansion of the program to the all-cargo carriers, at least until a more adequate determination of their need for improved equipment has been made, the suitability of available or prospective equipment for commercial use has been investigated, and the efficacy of this program for financing it has been more fully explored.

Sincerely yours,

ALAN S. BOYD, *Chairman.*

TABLE A.—*Bonanza*

12 months ended—	Revenue passenger load factor	Aircraft type
	<i>Percent</i>	
Dec. 31, 1958.....	45.44	Exclusive DC-3.
June 30, 1959.....	46.38	Mixed DC-3 and F-27.
Dec. 31, 1959.....	44.96	Do.
June 30, 1960.....	41.35	Do.
Dec. 31, 1960.....	39.76	Do.
June 30, 1961.....	42.99	Do.
Dec. 31, 1961.....	47.80	Exclusive F-27.

TABLE A-1.—Effect of the introduction of larger equipment types into certain local-service segments (January 1962 and the same month a year ago)

## A. AVERAGE PASSENGER LOADS

		Segment						
		5	6	7				
Central Airlines:								
January 1962 average passenger per mile.		11.8	9.3	14.6	Mixed DC-3 and CV-240.			
January 1961 average passenger per mile.		10.3	5.4	9.8	Exclusive DC-3.			
		Segment						
		3	5	6	8	9	11	
Southern Airways:								
January 1962 average passengers per mile.		9.2	12.9	11.4	10.4	4.5	6.6	Mixed DC-3 and M-404.
January 1961 average passengers per mile.		6.4	10.0	9.7	8.3	3.8	5.1	Exclusive DC-3.
		Segment						
		2	3	5	6	9		
Trans-Texas Airways:								
January 1961 average passengers per mile.		13.5	14.8	11.7	10.8	16.9	Mixed DC-3 and CV-240.	
January 1962 average passengers per mile.		10.0	12.4	9.6	8.2	10.7	Exclusive DC-3.	

## B. PASSENGER LOAD FACTORS

		Segment (percent)					
		5	6	7			
Central Airlines:							
January 1962 load factor.....		40.5	33.9	41.0	Mixed DC-3 and CV-240.		
January 1961 load factor.....		42.9	22.5	40.8	Exclusive DC-3.		
		Segment (percent)					
		3	5	6	8	9	11
Southern Airways:							
January 1962 load factor.....		31.7	43.0	38.0	33.5	14.1	19.4
January 1961 load factor.....		26.7	41.7	40.4	34.6	15.8	21.2
		Segment (percent)					
		2	3	5	6	9	
Trans-Texas Airways:							
January 1962 load factor.....		35.5	44.8	37.7	37.2	42.3	Mixed DC-3 and CV-240.
January 1961 load factor.....		41.7	51.7	40.0	34.2	44.6	Exclusive DC-3.



TABLE B.—Comparison of passenger load factors, scheduled service, realized by local-service carriers on F-27 versus all-piston aircraft and all aircraft types for selected periods

Period and aircraft type	Revenue passenger load factors, scheduled service (percent)				
	Bonanza	Ozark	Pacific	Piedmont	West Coast
1961:					
4th quarter:					
F-27.....	50.6	48.7	56.9	48.0	45.9
All piston.....	44.1	44.1	44.0	44.9	34.1
All aircraft types.....	50.6	45.3	49.0	46.7	41.6
3d quarter:					
F-27.....	45.9	46.5	54.7	50.1	49.2
All piston.....	42.6	44.1	44.1	44.4	37.6
All aircraft types.....	45.9	43.6	48.4	47.6	44.9
2d quarter:					
F-27.....	46.3	49.7	57.1	49.9	47.2
All piston.....	42.9	45.0	45.0	43.8	35.3
All aircraft types.....	46.3	44.5	49.9	47.2	42.9
1st quarter:					
F-27.....	48.5	41.9	52.0	43.3	45.8
All piston.....	38.9	40.7	40.7	36.4	37.3
All aircraft types.....	48.5	39.6	45.2	40.3	42.7
1960:					
4th quarter:					
F-27.....	40.3	44.3	52.8	44.5	46.5
All piston.....	30.9	41.5	46.3	41.4	33.9
All aircraft types.....	40.1	42.1	49.3	43.2	41.7
3d quarter:					
F-27.....	37.6	43.8	55.9	48.9	54.4
All piston.....	33.6	39.4	53.5	47.6	41.1
All aircraft types.....	37.3	40.2	54.6	48.3	48.6
1959:					
4th quarter:					
F-27.....	45.7	42.1	56.5	44.2	45.6
All piston.....	29.9	42.1	48.0	41.9	34.9
All aircraft types.....	40.5	42.1	51.7	43.3	40.8
1958:					
4th quarter:					
F-27.....	44.2	46.7	48.6	63.3	53.7
All piston.....	44.2	46.7	48.6	58.1	43.5
All aircraft types.....	44.2	46.7	48.6	58.6	47.6
1957:					
4th quarter <sup>1</sup> .....	42.7	42.5	50.4	52.2	46.0

<sup>1</sup> The last fourth quarter before inauguration of turboprop service.

Source: CAB form 41, schedule T-3.

TABLE C.—Revenue ton-miles in scheduled service of mail and all other classes of property carried in domestic operations on combination passenger-cargo planes and on all-cargo planes, calendar years 1960 and 1961, and percent change 1961 over 1960<sup>1</sup>

	Combination passenger-cargo planes		All-cargo planes		Combination passenger-cargo planes—All classes of property	All-cargo planes—All classes of property
	Mail	All other classes of property	Mail	All other classes of property		
Revenue ton-miles (thousands):						
1960.....	121,022	262,347	13,582	239,802	383,369	253,384
1961.....	132,079	296,160	13,775	255,654	428,239	269,429
Percent increase 1961 over 1960.....	9.1	12.9	1.4	6.6	11.7	6.3

<sup>1</sup> Data reflect all domestic operations, except for intra-Hawaii and intra-Alaska.

Source: CAB form 41, schedules T-1 and T-2.

TABLE D.—Operating revenues, Seaboard World Airlines, Inc., calendar year 1961

Total operating revenues	Charter		All other
	Passenger	Cargo	
\$20,446,889.....	\$5,022,473	\$2,693,165	\$12,731,251

Source: CAB form 41, schedule P-3.

TABLE E.—Aircraft operating expenses and selected operating data for Caravelle aircraft (SE-210), experienced by United Air Lines for third and fourth quarter of calendar year 1961

	1961 quarter ended	
	Sept. 30	Dec. 31
Total aircraft operating expenses, excluding depreciation of flight equipment and rentals.....	\$471,524	\$1,648,444
Depreciation of flight equipment and rentals.....	347,346	900,808
Total aircraft operating expenses.....	818,870	2,549,252
Utilization (hours per day).....	3:48	4:00
Average airborne speed (miles per hour).....	378	366
Average stage length (miles).....	546	442
Average number of seats per aircraft.....	63.5	63.4
Total aircraft operating expenses per:		
Aircraft hour <sup>1</sup> .....dollars..	545.55	577.67
Available seat-mile.....cents..	2.40	2.54
Available ton-mile.....do.....	17.53	21.41
Total aircraft operating expenses, excluding depreciation of flight equipment and rentals, per:		
Aircraft hour <sup>1</sup> .....dollars..	314.14	373.54
Available seat-mile.....cents..	1.38	1.64
Available ton-mile.....do.....	10.09	13.85

<sup>1</sup> Hours consumed in training personnel were eliminated, since such hours were apparently capitalized.

NOTE.—United Air Lines started operations with the Caravelle SE-210 on July 14, 1961. Due to limited experience for this aircraft, the unit costs might be considerably distorted.

Source: CAB form 41, schedules P-5.2, T-3, and T-4.

## STATEMENT OF GEORGE W. TOMPKINS, PRESIDENT OF THE NATIONAL AIR CARRIER ASSOCIATION

My name is George W. Tompkins. I am president of the National Air Carrier Association, and I am also president of Overseas National Airways, a supplemental air carrier.

Attached hereto as exhibit 1 is a list of the officers and members of the National Air Carrier Association. All of the members of our association are classified by the Civil Aeronautics Board as supplemental air carriers. Technically, at the present time, there are some 32 carriers holding authority from the Civil Aeronautics Board to engage in air transportation as supplemental air carriers. However, a substantial number of these companies are inactive or their operations are so small as to be insignificant. The eight members of National Air Carrier Association currently have assets of over \$22 million, or about 73 percent of the total assets of all supplemental air carriers.



Our members are engaged in a variety of air transportation services: Overseas contract and charter operations for the Department of Defense; domestic cargo services for the Air Force; specialized operations for the National Aeronautics and Space Administration; low-cost transatlantic charter operations for charter-eligible groups such as fraternal organizations, schoolteachers, students, etc.; limited individually ticketed commercial services, all-expense tour activities, and charter services for military personnel traveling among points within the continental limits of the United States.

Generally speaking, our members are in favor of the principle of guaranteed loan legislation for the acquisition of modern aircraft (particularly those of a cargo configuration), but we are definitely opposed to any legislation which would favor any relatively small group of air carriers to the detriment of their competitors. Specifically, we are opposed for reasons we will later discuss, to the amendment to S. 2815 introduced by Senator Smathers, which we understand would extend the benefits of guaranteed loan legislation to the scheduled cargo carriers only and would deny such benefits to both the supplemental air carriers and the certificated all-purpose carriers.

Our members received their certificates from the Civil Aeronautics Board in 1959 as a result of hearings which began in 1952. Although there was disagreement among the members of the Board with respect to the extent to which these carriers should be allowed to engage in individually ticketed services, the members of the Board were unanimous in their opinion that charter and contract operations by the supplemental air carriers are required by the public interest. Moreover, one of the principal reasons given by the Board for granting certificates to the supplemental carriers was " \* \* \* the vital services rendered by these carriers in the interest of national defense." (CAB Order No. E-13436.)

Supplemental air carriers are in direct competition with the scheduled cargo carriers for contract and charter services operated for the Department of Defense. Attached hereto as exhibit 2 is a tabulation showing the allocation of Department of Defense traffic by the Military Air Transport Service (MATs) during the fiscal year July 1, 1961, through January 31, 1962. It will be noted that of the approximately \$126 million in total airlift contracts, \$63,808,571 or over 50 percent was allocated to the four domestic cargo carriers; namely, Riddle Airlines, Inc., the Flying Tiger Line, Slick Airways, Inc., and AAXICO Airlines, Inc. On the other hand, the five members<sup>1</sup> of National Air Carrier Association participating in MATs traffic received a total of \$25,639,204 in airlift business or less than half the amount allocated to the four certificated cargo carriers.

The fact that the certificated cargo carriers have been favored in the awarding of MATs business has not, in my opinion, stimulated the development of commercial airfreight services. On the contrary, military contract operations have served to divert the time and energy of the cargo carriers from what is supposed to be their function; namely, the operation of commercial airfreight services over fixed linear routes. Thus, it is reasonable to assume that any aircraft to be acquired by the cargo carriers pursuant to guaranteed loan legislation will be placed in off-route contract and charter operations (in direct competition with the supplemental carriers) and not in commercial freight services.

The following tabulation shows that, during the year 1961, only 20 percent of the total revenues of the domestic cargo carriers was derived from commercial freight operations. Seventy-four percent of their revenues was derived from military contract and charter operations having no relationship to the fixed linear routes of the cargo carriers, and the rest (6 percent) was obtained from the operation of commercial charters and the transportation of express and mail.

<sup>1</sup> World Airways, Inc., Capitol Airways, Inc., Trans International Airlines, Inc., Overseas National Airways, Inc., and Southern Air Transport, Inc.

Source of transport revenues, scheduled domestic cargo carriers, 1961

<b>AAXICO Airlines, Inc.:</b>	
Military contracts and charters	\$4,148,165
Commercial charters	None
U.S. mail	None
Express	None
Commercial freight	None
Total	4,148,165
<b>Riddle Airlines, Inc.:</b>	
Military contracts and charters	18,522,703
Commercial charters	907,234
U.S. mail	128,407
Express	122,207
Commercial freight	3,959,082
Total	23,639,633
<b>Slick Airways, Inc.:</b>	
Military contracts and charters	11,662,405
Commercial charters	112,738
U.S. mail	None
Express	None
Commercial freight	None
Total	11,775,143
<b>The Flying Tiger Line, Inc.:</b>	
Military contracts and charters	18,656,239
Commercial charters	2,899,316
U.S. mail	105,346
Express	124,687
Commercial freight	10,410,368
Total	32,195,956

Source: Carrier form 41 reports to the CAB for year ending Dec. 31, 1961.

Despite their recent acquisition of so-called modern turbine-powered cargo aircraft, the certificated domestic cargo carriers have, during the past few years, either greatly curtailed their commercial freight services or abandoned such services altogether. Specifically, the history of such operations is as follows:

1. *AAXICO Airlines, Inc.*—This carrier was certificated by the Civil Aeronautics Board in 1956 to provide cargo services over extensive routes east of the Mississippi River. The company inaugurated service over a portion of its routes in November 1956 and suspended such service on June 30, 1959.<sup>2</sup>

2. *Riddle Airlines, Inc.*—Historically, this company has operated the most extensive north/south air freight service of any air carrier. During 1957, Riddle generated about 21 million scheduled ton-miles of commercial air freight. By 1959, this volume had fallen to 16,500,000 ton-miles where it remained relatively stable until February 1962, at which time Riddle suspended service over all of its domestic route system except between New York City and Miami, Fla.<sup>3</sup> One of the principal arguments advanced by Riddle in support of its application to suspend commercial airfreight service was the alleged fact that the company has not been receiving enough MATS business; yet reference to exhibit 2 shows that during the 1962 fiscal year, Riddle received more MATS business than any other air carrier and seven times the amount of such business awarded to the average carrier participating in the MATS airlift program. Indeed, in its

<sup>2</sup> CAB Order No. E-14145 dated June 30, 1959.

<sup>3</sup> CAB Order No. E-18300 dated May 4, 1962.



application for suspension dated February 7, 1961 (pp. 2, 3), Riddle commented on its losses from commercial freight service as follows:

"These losses can be either eliminated, by abandoning service, or offset, by revenues from other sources."<sup>4</sup>

In other words, the fact that MATS has favored Riddle by awarding that company more business than any other air carrier has not had the effect of stimulating the development of commercial air freight; rather, Riddle has apparently decided to abandon commercial freight services and obtain its revenues "from other sources," i.e., Government contract and charter operations.

Riddle is one of three domestic cargo carriers which has acquired so-called modern turbine-powered all-cargo aircraft. In its brief to the Civil Aeronautics Board in the *Domestic Cargo-Mail Service* case dated March 27, 1961, Riddle advised the Civil Aeronautics Board that it had acquired some seven British-built *Argosy* aircraft for use on its commercial freight services. Riddle stated:

"One of the principal reasons of the examiner for selecting Riddle was that Riddle 'has submitted detailed plans for its operation of the needed north/south routes, and purposes installation of modern jet-powered all-cargo equipment on its system' (I.D. 76). No carrier in the case submitted such a complete and detailed proposal. And *only Riddle* now has in hand the airplane it said it would use." [Italic in original.]<sup>5</sup>

Yet, Riddle has never operated any of these aircraft on commercial freight services; rather, these planes have been assigned entirely to a contract which Riddle operates for the Air Force. Thus, the Government is, in effect, financing a fleet of British-built *Argosy* aircraft for Riddle and yet these aircraft are apparently not suited for commercial freight operations. In any event, they have not been assigned to commercial freight services despite the representations of Riddle to the Civil Aeronautics Board in the *Domestic Cargo-Mail Service* case.

In view of this history, I suggest that it is unreasonable to assume that any aircraft acquired by Riddle pursuant to guaranteed loan legislation will, in fact, be placed in commercial airfreight services; rather, the reasonable assumption is that such aircraft will be utilized by Riddle in the same manner as the *Argosy* planes; namely, placed in off-route charter and contract services in direct competition with the supplemental air carriers.

3. *Slick Airways, Inc.*—Prior to 1958, this company operated an extensive east/west cargo route system. In 1958, however, the company suspended all of its commercial freight services and has not reinstituted any such operations despite the fact that it has acquired a number of Canadair CL-44 aircraft.

4. *The Flying Tiger Line.*—This company's presentation in the *Domestic Cargo-Mail Service* case was based upon the operation of CL-44 aircraft in commercial air cargo services; yet these planes were assigned by the Flying Tiger Line to military contract services as soon as they were delivered to the company beginning about a year ago. In other words, the fact that the Flying Tiger Line has been awarded over \$20 million in MATS business during the current Government fiscal year (second only to Riddle and Pan American), has not had the practical effect of placing any so-called modern turbine-powered cargo aircraft in commercial airfreight services.

The basic purpose of the guaranteed loan legislation as it was originally adopted in 1957 was to enable the local service carriers (and also the territorial carriers) to convert their operations from DC-3's (or similar aircraft) to more modern planes. Generally speaking, these carriers have either had no competition or limited competition among themselves. Thus the legislation operated to the benefit of all members of the class without unjust discrimination against any particular member. On the other hand, the extension of the benefits of the legislation to the scheduled cargo carriers would be a disastrous blow to the supplemental air carriers in a field (contract and charter operations) where they have rendered valuable services since shortly after the end of World War II. Moreover, all persons who have studied the supplemental air carrier problem agree that their primary operations should be in contract and charter services.

<sup>4</sup> CAB Order No. E-18300 dated May 4, 1962.

<sup>5</sup> Brief of Riddle Airlines, Inc., to the Civil Aeronautics Board dated Mar. 27, 1961, p. 11.

The supplemental air carriers were awarded their certificates as a result of the most extensive hearings ever conducted by the Civil Aeronautics Board. As pointed out above, all members of the Board agreed (and the Board's examiners also agreed) that the public interest, and the interest of national defense, require contract and charter operations by the supplemental air carriers. No comparable findings have ever been made in the case of the certificated cargo carriers. On the contrary, the off-route charter and contract operations are supposed to be services which are merely incidental to the primary function of such carriers; namely, the development of common carriage airfreight over fixed linear routes. If the scheduled cargo carriers are, in fact, to be supplemental air carriers, they should be so classified by the Civil Aeronautics Board and treated in the same manner as other supplemental air carriers. In any event, the so-called cargo carriers should certainly not be singled out for special favors.

In summary, we strongly favor guaranteed loan legislation to enable air carriers to acquire modern jet-powered equipment, provided this assistance is not limited to any particular class of carrier but available to all.

I wish to thank the committee for the privilege of presenting this testimony.

#### EXHIBIT 1

##### NATIONAL AIR CARRIER ASSOCIATION

George W. Tompkins, president, Solar Building, Washington, D.C.

E. J. Daly, first vice president, Oakland International Airport, Oakland, Calif.

J. F. Stallings, second vice president, Berry Field, Nashville, Tenn.

##### MEMBERS

American Flyers Airline Corp., Meacham Field, Fort Worth, Tex.

Capitol Airways, Inc., Berry Field, Nashville, Tenn.

Modern Air Transport, Inc., Newark Airport, Hangar No. 8, Newark 5, N.J.

Overseas National Airways, Inc., 404 Solar Building, Washington 6, D.C.

Saturn Airways, Inc., Post Office Box 182, International Airport Branch, Miami, 48, Fla.

Southern Air Transport, Inc., Post Office Box 48-1266, Miami International Airport, Miami 48, Fla.

Trans International Airlines, Inc., Post Office Box 90277, Airport Station, Los Angeles 9, Calif.

World Airways, Inc., Oakland International Airport, Oakland, Calif.

##### ASSOCIATE MEMBER

Purdue Aeronautics Corp., Purdue University, Lafayette, Ind.



EXHIBIT 2  
Military Air Transport Service, fiscal year 1962 dollar obligations, July 1, 1961, through Jan. 31, 1962

Carrier	Total volume		Logair, quicktrans, and fixed		Expansion		Percent of expansion to fixed		Call		Percent of call to fixed	Percent of call to total
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total		
1. Riddle Airlines.....	\$21,134,357	16.79	\$15,845,810	18.24	\$1,303,353	7.67	\$3,985,205	18.08	18.08	25.14	18.86	
2. Pan American.....	21,047,987	16.72	15,920,105	18.33	4,743,994	27.93	3,753,798	1.71	2.36	2.36	1.79	
3. Flying Tiger Line.....	20,979,515	15.95	10,495,598	12.08	3,802,997	34.73	3,679,950	16.70	35.06	35.06	18.33	
4. Slick Airways.....	14,760,948	11.72	9,081,775	17.45	2,888,182	15.23	3,090,951	14.02	34.03	34.03	20.94	
5. World Airways.....	10,633,481	8.45	6,793,872	7.82	996,580	5.87	2,843,019	12.90	41.85	41.85	26.74	
6. AAXICO Airlines.....	7,833,741	6.22	7,786,744	8.96			46,977	.21	.60	.60	.60	
7. Seaboard World Airlines.....	7,415,256	5.80	5,724,922	6.65	938,841	5.33	703,493	3.19	12.19	12.19	9.49	
8. Capitol Airways.....	5,819,527	4.63	5,588,158	6.43			2,436,392	11.05	84.50	84.50	45.80	
9. Zantop.....	3,772,058	3.00	3,772,058	4.34								
10. Trans International.....	3,758,987	2.98	3,440,832	3.96	218,213	1.28	2,097,942	9.52	145.61	145.61	55.84	
11. Overseas National.....	3,578,900	2.84	3,440,832	3.96	29,241	.17	200,457	.91	5.99	5.99	5.60	
12. Southern Air Transport.....	2,350,309	1.87	2,338,362	2.69			11,947	.05	.51	.51	.51	
13. Northwest.....	1,648,433	1.31	1,380,982	1.59	267,454	1.57						
14. U.S. Overseas.....	1,637,550	1.42					1,437,556	6.52	0	0	100.00	
15. Great Lakes.....	628,940	.42					528,949	2.40	0	0	100.00	
16. California Hawaiian.....	358,449	.28					356,449	1.62	0	0	100.00	
17. Alaska Airlines.....	228,090	.18					228,090	1.03	0	0	100.00	
18. Trans Caribbean.....	17,133	.01					17,133	.08	0	0	100.00	
Total.....	125,899,688	100.00	86,868,508	100.00	16,990,835	100.00	22,040,338	100.00				

Source: MATS Headquarters, Scott Air Force Base, Ill.



## STATEMENT OF ROBERT M. HEWITT, PRESIDENT OF RIDDLE AIRLINES, INC.

Mr. Chairman and members of the committee, my name is Robert M. Hewitt, president of Riddle Airline, a Miami-based cargo carrier certificated for scheduled service between Miami, New York, San Juan, and other cities; also the leading U.S. military contract carrier, worldwide.

Though I can speak only for Riddle, I shall state what I believe to be the case for America's all-cargo industry as a whole.

The pending bill can be an important step toward an air cargo breakthrough without cost to the taxpayers. I urge the following steps, supported by official witnesses before your committee:

1. Renew the aircraft loan guarantee program 5 years beyond its expiration next September, as proposed in H.R. 10129.

2. Raise the guarantee limit from \$5 million to \$15 million per airline.

3. Include the all-cargo carriers.

We oppose broadening the law to include other classes of carriers or for the purchase of foreign aircraft.

## RENEW THE LAW

For renewing the Aircraft Loan Guaranty Act of 1957 another 5 years, both the CAB and Commerce have cited good progress in the first 5 years of the law.

So far, 11 carriers, including 2 helicopter lines, have borrowed \$37 million at about 5½ percent to modernize their fleets with 49 airplanes and 13 helicopters, and have repaid more than \$14 million. Applications for 10 more aircraft are pending. Doubtless more would have been bought had the plane makers been ready with new local service types.

That is not the whole story. The present law allows 90 percent guarantee for 32 airlines up to \$5 million each, a total of \$160 million. But an airline first has to be turned down by commercial lenders before it goes to CAB. Some, without recourse to guarantee, have received equipment loans on better terms than if the door were not open at the Board.

One line needed \$3 million. Three local banks decided that if it was a good risk for CAB, they could carry it on their own. So each lent a million and this airline bought its planes.

Beyond the direct measurable results, the law is a yardstick for aircraft loans as the Tennessee Valley Authority was for electric rates. Powerful lobbies sometimes try to oppose such legislation, but Congress acts in the public interest.

In 1957, the local transport lines, the main beneficiaries of the law so far, were losing money with their obsolescent planes. Their earnings record was against their borrowing for new ones. It was to break this impasse that CAB proposed loan guarantee.

Conservatives in Congress feared that such a use of public credit might be costly in the end. No airline has defaulted. Similar aid is being extended to the railroads. Several foreign nations also have guarantee for loans to push sales of their planes, including sales to U.S. airlines.

Banking interests tried to stop the bill on the grounds that their trust certificate plan, to give lenders first lien on aircraft as for railway rolling stock, was enough. Congress passed both bills.

It should be clear that something more than liens on aircraft still is needed. The trouble in disposing of old aircraft, as airlines converted to turboprops and then to jets, has shown that used planes are not always a quick asset to pledge as security. Lenders still must rely on the soundness of the airlines, backed by guarantee for those in development stages.

CAB is pushing hard for new types of local service aircraft. This alone could well justify the support the Board is giving to renewal of loan guarantee. The same applies to cargo planes.

## RAISE THE LOAN LIMIT

As we have seen, the limit of \$5 million per airline can buy quite a few planes of the small local service types. But this will not finance more than one jet transport. The type that most interests Riddle will cost close to \$7 million.

That is why Riddle wants the loan limit increased. The Department of Commerce recommends \$15 million "to allow for the higher cost of an aircraft suitable for use in all-cargo operations."



Not a single jet aircraft is flown by the cargo lines today, and only a few turboprops, which Riddle has. Jet flight is essential to the future of cargo lift just as it is to passenger lift.

On domestic routes, the passenger airlines are gaining in cargo mainly by the space in the holds of passenger flights. This includes jets with their great capacity beyond the weight of passengers.

The all-cargo lines, with their piston planes, have gained little in scheduled ton mileage for several years. They must have jets to compete.

Across the oceans, foreign airlines gain steadily in U.S. traffic. The cargo lines must modernize to do their part in restoring the U.S. position.

Military airlift requires the latest and best in speed, capacity, and economy. The absence of cargo jets is a weak spot in American readiness.

Most of the cargo airline planes are passenger convertible. Seats slide on tracks or fold to the wall, either to carry passengers or make room for cargo. Applications are pending in CAB to combine cargo and passengers in civilian flights, a very economical form of transport.

To make the most of their flexibility and their worldwide experience the cargo lines need jets. Just one jet per airline would be of limited use. It is uneconomical to maintain a single big airplane of any kind. At least two are needed so one can fly when the other is out of service.

The \$15 million limit will finance two jets each for the airlines that need them. Once in jet operation, they will be on the way to acquiring more.

If your committee does not wish to go above \$5 million for airlines using smaller aircraft, appropriate limiting language may be inserted. But Riddle has no objection to equal limits for all the airlines eligible under the renewed law.

Neither do we object to CAB's proposal that guarantee for cargo line aircraft be limited to turbine-powered planes. That is what Riddle wants to buy. But we cannot force the needs of other airlines, so we suggest it be left to administrative discretion.

#### INCLUDE THE CARGO LINES

Inclusion of the certificated all-cargo carriers in loan guarantee is proposed by an amendment to S. 2815 by Senator Smathers. He told the Senate on March 8:

"This is the one way I know to develop U.S. airlift for civil and military use without cost to the taxpayers. \* \* \*

"The cargo carriers are the survivors of the companies formed after World War II which pioneered in the new and difficult field of cargo lift. Their job is to render scheduled cargo service on the routes for which they are certificated by CAB. Flying for the most part in secondhand aircraft designed for passengers, they have not yet been able to break even on their cargo routes.

"To stay in business, the cargo airlines have developed worldwide military and civilian charter service, important experience for emergency readiness. Even so, this branch of air transport has incurred net losses in recent years. This unfavorable earnings record makes it difficult to secure new aircraft, the key to future earnings."

The backing of CAB and the Commerce Department for cargo line guarantee is in accordance with recognized Government policy in the "Report of Task Force on National Aviation Goals," developed through the Federal Aviation Administrator and accepted for implementation by President Kennedy, September 10, 1961.

"Several all-cargo carriers have withdrawn from scheduled commercial services and the others require substantial revenues from nonscheduled services to sustain their scheduled operations. \* \* \*

Questioning subsidy as a cure, the report concludes:

"We are of the opinion that indirect aid should be provided in the form of Government support of aircargo transport vehicle development, the expanded use of aircargo services for mail and military cargo \* \* \* and guaranteed loan legislation subject to the most detailed scrutiny by the Civil Aeronautics Board of the characteristics of the aircraft as an economic vehicle, before approval of such loans is granted. And the matter of direct subsidy requires immediate analysis, not only in view of the obvious national interest in expanding the development of this branch of air transportation but in terms of its relation to military airlift capability."

We in the aircargo industry would rather operate without subsidy. We will find it hard to do so unless national policies on paper are made real.

In 1957 it was argued that loan guarantee would pay dividends to the taxpayers by helping the local service airlines get off subsidy. While most have not achieved this, their traffic has doubled and they are making great progress.

Loan guarantee can help keep the cargo lines off subsidy. Other measures take time. Aid in developing a true cargo aircraft, instead of the makeshift use of passenger types, is long overdue. It was urged as far back as the air policy reports of 1948. We hope someday it will be done.

But the cargo lines cannot wait. We must buy the planes on hand. Jets now being manufactured will help us greatly, both for fast freight and for passenger charters. For many purposes it will be better to use present jets, cargo convertible with passenger seats, than all-cargo type not suitable for passengers.

We would not like the cargo-line guarantee limited to freight use. Past military lease of planes thus restricted proved impractical. With convertible planes we often can balance a cargo flight with a return load of passengers instead of ferrying back empty. The military value of such flexibility needs no argument.

As the Horizon report says, full scrutiny by CAB of plane types for guarantee is a proper safeguard, if not prolonged in so-called expedited cases that take 5 years.

Otherwise, we invite inspection because we are proud of our record and enthusiastic about our potential, ready to go if officials will only lift some of the uncertainties that make it so hard to get long-range financing.

Of the postwar airlines that tried to prove their fitness in the cargo field, only six remain as entities. One of these did not operate its routes and loses them in a recent CAB decision. Another, with routes into Latin America, has a merger agreement pending with Riddle.

So the Smathers amendment presumably will add only 4 airlines to the 32 now eligible for guarantee: Riddle Airlines, with north-south routes in the East; the Flying Tiger Line, with east-west routes; Seaboard World Airways, transatlantic; and Slick Airways, not currently in route service.

The cargo airlines have some 120 aircraft with a total payload capacity of 2,000 tons. The passenger airlines have about 80 aircraft of cargo-convertible or cargo configuration. The supplemental air carriers and other nonscheduled operators have no more than 50.

The cargo lines have modernized their fleets as best they could to include the later models of piston aircraft, whereby they have helped maintain the used-plane market for the jet conversion of passenger lines.

Also, they are the first commercial users of true cargo aircraft. Since no such U.S. plane was available, foreign types were bought. Riddle has several British Argosy AW-650's, a nose-loading turboprop. Several other cargo lines have bought the aft-loading Canadian CL-44-D4 Swingtail.

There is no early prospect of converting the heavy military cargo planes into economical civilian use or completing a commercial all-cargo prototype. But the eligible airlines, even if they use their credit now for off-the-shelf models, may repay enough within 5 years so they can apply for guarantee again up to their loan limit. Thus they may contribute to the market for future U.S. cargo aircraft before September 1967, within the term of the renewed law. But the forthcoming cargo version of present commercial jets by Boeing and Douglas gave early promise of tested and tried vehicles at very low ton-mile costs.

For the guarantee to extend to purchase of foreign aircraft, while U.S. cargo types are not available, seems unnecessary. The cargo lines have bought foreign planes with foreign aid financing, and may continue to do so if necessary. It would have saved us money had Congress chosen to remit the import duty, as was proposed. But if we expect Congress to be concerned with the welfare of U.S. airlines, it is only fair that we in America support the interests of U.S. aircraft makers while foreign governments support theirs.

#### CARGO LINES LEAD IN MILITARY FREIGHT

For military emergency, the importance of cargo lift is recognized in Horizon and other high-level reports, and commercial lift is bought by the Armed Forces to help maintain ready lift capacity.

Riddle is first in MATS work for the fiscal year 1962. Pan American World Airways is a close second. Flying Tiger, another all-cargo line, is a close third.

Out of a total of \$126 million for all 18 U.S. air carriers in contract work for the Military Air Transport Service, 5 all-cargo lines totaled more than \$71 million or 57 percent.



Much the same ratio prevails as to cargo aircraft in the civil reserve air fleet (CRAF)—the airline planes capable of long-range flight over the oceans, on call by MATS if the bell rings. Here are recent figures from the Defense Air Transport Administration (DATA).

For the fiscal year 1963, the all-cargo lines are to have at least 55 aircraft in CRAF with a total capacity of nearly 1,200 tons payload, more than half of the total commercial cargo lift in CRAF. Most of these planes are owned rather than leased, so their purchase has contributed to the lift capacity of the Nation.

The nonscheduled airlines, that some people seem to think are the backbone of the military reserve, have 43 planes in CRAF with a payload capacity of 660 tons, barely half the cargo-line total. Many are leased, presumably including some from the all-cargo industry, so they have added nothing to U.S. lift. All are piston driven, including 10 DC-4's of World War II vintage, nonpressurized and thus below military passenger standards.

Present MATS work of the cargo line includes the route-type logair and quicktrans, on schedule between bases within the United States, as well as paneload cargo and passenger flights to U.S. bases over both the Atlantic and Pacific.

Last year, Riddle broke the commercial distance record in a routine ferrying flight nonstop from Tokyo to Chicago. Who can give you a better demonstration of global readiness?

Last summer we flew United States and foreign tourist groups across the Atlantic; we total as many as four round trip crossing a day for weeks at a time. Tourism at last is encouraged by Government for international good will. The more we fly, in competition with foreign carriers, the better for the gold balance. It is good for emergency readiness because such traffic can stop and the planes can go at once to military use.

This year Riddle is making contract flights out of Berlin to points in Europe. The lessons of the Berlin lift, for which America was unprepared, shows how valuable it is to have an American airline gaining friends and experience in this sensitive area.

#### MILITARY CARGO JETS ARE NEEDED

The report on "The Role of MATS in Peace and War," issued by the Department of Defense in February 1960, put much stress on cargo lift, including jets. It reads:

"That with respect to services overseas and to foreign countries, commercial augmentation airlift procurement policies and practices be better adapted to the long-range Department of Defense requirements, so as to encourage and assist in sound economic growth, development, and maintenance of an increased air-cargo capability \* \* \*.

"That since the development of long-range, economical turbine-powered cargo aircraft is essential to MATS modernization and to long-range evaluation of a modern civil cargo fleet, suitable arrangements should be made for Defense and industry participation in the costs of such development.

"That purchase loan guarantee legislation, if proposed, contain provisions to insure the immediate availability of cargo aircraft covered thereby to meet military and mobilization requirements."

Riddle, of course, stands ready to place any aircraft it may own into the service of national defense if the call comes.

#### CARGO LINES ARE LOSING MONEY

The cargo lines cannot be expected to modernize at the pace required without the help of loan guarantee. They have strained their resources in the reequipping they have done.

It is difficult and costly even for major airlines, let alone smaller ones, to put a new-type plane into operation. The Argosy and Swingtail are giving good service now. But this costs thousands of hours of work and millions of dollars for engineering, maintenance, crew training, and experience.

The all-cargo industry, between the baggage-hold competition of passenger airlines on its routes and nonscheduled lines without route responsibility in its charters, is losing money. We waited for years for route system decisions that have not solved our problems. We face sudden ups and downs in military traffic and have to scratch for other work between times. We meet many FAA demands and support union crews. We must have personnel in foreign countries.

The charter operations, which are our mainstay, depend on the cumbersome process of CAB exemptions that Congress wants to discourage. Long-range authority for charter work in the Engle amendment, long delayed because of the deadlock of the controversial supplement air carrier bill.

All these things are relevant to your consideration of S. 2815 because this is not a separate issue but part of a pattern of change and progress demanded by public necessity.

Even more than the local service lines 5 years ago, that could not go broke because they drew subsidy, the unsubsidized cargo lines need Federal backing for their credit. Money has been hard to get, long term and at reasonable rates, either for expansion or to offset deficits.

Amid all these burdens, uncertainties, and difficulties of pioneering a new industry with secondhand equipment intended for other use, the all-cargo industry has incurred annual deficits. After making a little in its early years, it began to lose in 1954, gained a bit in 1955 and 1956, and since reported losses.

The annual summary by the Air Transport Association, just out, shows that these airlines lost more than \$24 million in the 5 years 1957-61, despite increasing traffic.

When their scheduled freight began to hit a dead level in the mid-1950's, they diversified into military and other charter work to stay alive. It is an amazing fact that their total traffic since has tripled in ton-mile and dollar volume; yet losses have mounted.

In 1960, they lost over \$9 million. In 1961, despite added military work and transatlantic charters, they still lost more than \$6 million.

The big trunk airlines oppose us as a matter of routine. In the present hearings, the Air Transport Association, of which we are members, has been put in a neutral position. But it is the example of the cargo lines that has pointed the way to the cargo revenue of the passenger airlines. With your help, we will take a new lead with cargo jets.

It would seem most unfair to extend loan guarantee to the big passenger airlines for cargo aircraft. They already have the great advantage of space in the bellies of passenger flights and, after all cargo flying is our assigned job. The passenger airlines after World War II were content with their high-rate express and mail. They let the cargo lines develop the airfreight market, the sales methods, the packaging and the ground handling. Now they are barely doing more than skim the cream as they have empty space in planes available.

It may be hoped that the problems of the passenger airlines are temporary during expensive equipment changes and readjustment. The solutions include mergers and harder passenger selling in competition with ground carriers rather than help for them to divert more cargo from our branch of the industry.

Beyond our route service, if we have become also the world's largest group of charter flyers, this is a field that the passenger lines have not sought to develop except as a minor sideline, and one that is not reserved for any class of carriers. If we lead, it is by salesmanship and merit.

Bankers cannot lend on hopes and aspirations. We in Riddle ought to be experts in airline credit; we have knocked at the doors of more lenders, probably, than any airline in the world, trying to get working capital at reasonable rates.

Much of the credit for aircraft purchases for cargo airlines these days comes from the manufacturers and their parent companies, rather than from lending institutions. This includes foreign money and U.S. interests with foreign holdings. General Dynamics, Douglas, Lockheed, and Whitworth Glouster have helped finance the cargo lines.

This is not only to sell new planes they make but to dispose of older models they have taken as trade-ins. Whether this verges on a new form of direct control, unforeseen in the making of aviation laws, and whether taking the plane with the easiest credit always means the one most suitable, are matters I shall not pursue. There is a complex tangle of interests at work here.

I do say that aircraft loan guarantee, to provide funds through the normal channels of lending institutions, has given the local transport airlines a greater freedom of choice in reequipment and can do the same for the all-cargo airlines.

#### KEEP PROGRAM IN CAB

As for the administration of the aircraft loan guarantee law, I would recommend that it stay in CAB, the one agency primarily in the airline business. The principle of keeping aviation in an independent agency, rather than submerged



under officials busy in other fields as well, has been upheld over the years and Commerce Department powers more than once were taken away.

Without reflection on present Commerce officials, we cannot afford the delays attendant on agency transfer and remaking of policies. We should not be expected to wait behind the problems of transportation as a whole; we have enough problems in our small part of it.

Our needs are fairly simple and the steps are well marked in policies nationally accepted. But action lags between several agencies that never seem to move together. Please do not add further complications.

In closing, may I suggest that responsibility between a carrier and the Government goes two ways. To win a public franchise, the carrier must agree to perform the required service to the best of its ability. As the giver of the franchise, the Government is bound to show some decent regard for the carrier, and save it from impossible conditions.

The cargo airlines are grateful to your committee for doing so much to meet your share of the responsibility.

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#### STATEMENT OF LOS ANGELES AIRWAYS, INC.

Los Angeles Airways, Inc., supports the enactment of H.R. 10129, which would extend for another 5 years Public Law 85-307, providing for Federal Government guarantee of private loans to certain air carriers (including the helicopter carriers) for the purchase of modern aircraft and equipment.

By the terms of loan guarantee docket LG-19, the Civil Aeronautics Board, has executed a loan guarantee agreement with the carrier and the Bank of America under the terms of which Los Angeles Airways has purchased four fully equipped S-61L helicopters, spare engines, and parts. Three of these aircraft have already been placed in service and are meeting with substantial public approval. In fact, there is every reason to believe that these turbine-powered aircraft will provide the equipment breakthrough awaited by the scheduled helicopter carriers for so many years and which will allow the helicopter experiment to move forward.

The purchase of these revolutionary new aircraft has required the expenditure of approximately \$3 million. Without the loan guarantee authorized under Public Law 85-307, LAA would not have been able to borrow enough long-term funds or raise sufficient equity on reasonable terms to finance the purchase of such equipment.

Los Angeles Airways confidently expects that the acquisition of the four S-61L helicopters will contribute substantially to the orderly reduction of its subsidy support.

However, the achievement of subsidy-free operation is dependent upon expansion of route structures and implementation of similar factors designed to improve the carrier's suburban service to cover the entire Los Angeles "megapolis." This may well require increasing LAA's fleet to include a fifth, sixth, or seventh turbine helicopter, or an entire new generation of equipment. At a time when the helicopter experiment has reached its most challenging stage, Los Angeles Airways strongly supports extension of the provisions of Public Law 85-307 for an additional 5 years so that the goal of efficient, economical schedule helicopter transportation may be achieved with the most modern equipment as a means of reducing subsidy support.

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#### STATEMENT OF EDWARD J. DRISCOLL, DEPUTY TO THE ASSISTANT SECRETARY OF THE AIR FORCE, MATERIEL, FOR TRANSPORTATION AND COMMUNICATIONS

Mr. Chairman and members of the committee, my name is Edward J. Driscoll. I am Deputy to the Assistant Secretary of the Air Force, Materiel, for Transportation and Communications. I appreciate this opportunity to express the views of the Department of Defense concerning S. 2815 and the amendment thereto proposed by Senator Smathers with respect to the Senate bill.

The Department of Defense has communicated its views to the chairman of this committee under date of May 11, 1962, and we interpose no objection to the enactment of S. 2815 or the proposed amendment on the assumption that decisions as to whether specific aircraft purchase loans made to scheduled all-cargo carriers should be guaranteed by the Government will depend, among other factors, upon whether the aircraft being purchased has been determined by the

Department of Defense to be suitable to meet emergency needs of the Department of Defense.

To give a clearer understanding of the Department of Defense interest in guaranteed loan legislation, I believe it would be helpful to review and describe for you our normal commercial airlift procurement management practices.

As you are aware, the Military Air Transport Service, functioning as the Department of Defense executive agent for airlift services, has been responsible for the procurement and management of commercial airlift for both international and long-term domestic services for an extended period of time. Over the years we have modified our practices as we gained experience. Our efforts have consistently been directed toward securing the most efficient and suitable air transportation services. The scope of this activity includes supplemental, all-cargo, and the regularly scheduled carriers.

In Secretary Imlie's appearance before the House Subcommittee on Military Operations of the Committee on Government Operations in June of the past year Air Force aims with respect to commercial air transportation were spelled out in detail. It may be helpful to summarize them at this time, as follows:

- (1) To encourage civil participation in the civil reserve air fleet;
- (2) To insure an expanded capacity of both cargo and passenger civil airlift available to the Department of Defense for use in any limited or localized emergency which does not justify activation of the entire civil reserve air fleet;
- (3) To encourage the procurement by the air transportation industry of modern aircraft best adapted to Government emergency needs and committed to the Department of Defense; and
- (4) To provide stability to the air transportation industry so that they can properly program their resources and capabilities to the long-range needs of the Department of Defense in conjunction with their civil commitments and civil requirements.

In consonance with these objectives the matter of augmenting the Military Air Transport Service with commercial airlift has been and is a continuing practice of the Department of the Air Force. Although our reliance upon commercial carriers has grown in each of the past successive years, the arrangements concluded for fiscal year 1962 are the largest ever entered into by the Military Air Transport Service.

Some elements of this procurement are noteworthy. First, small business obtained approximately 80 percent of the awards. Secondly, if the successful carriers show positive signs of moving toward modernization, the Government has the option of extending the contracts for 2 successive years. This should be an incentive toward the modernization necessary to the civilian fleets and provide the carriers with a firmer basis for financial plans. Finally, the contracts contain expansion features which provide the military a specific number of aircraft to be available in the event of emergency.

The Military Air Transport Service is currently engaged in negotiating with the civil carriers for fiscal year 1963, and preliminary indications are that the Department of Defense has obtained a substantial increase in the civil cargo capacity of the civil airlines which would be available to the Department for peacetime performance. We understand that at least two carriers have placed orders for modern turbine-powered cargo equipment, and that others are in the process of negotiating with aircraft manufacturers for the acquisition of additional capacity. It is in this latter area that guaranteed loan legislation may enable carriers to acquire the modern turbine-powered cargo equipment on more reasonable terms and conditions.

I believe it correct to assume that the civil carriers will acquire modern turbine-powered equipment based, at least in part, on the quantity of MATS business that will be made available to these carriers, and as the committee is well aware the volume for fiscal year 1962 as well as that projected for fiscal year 1963 is quite substantial. One of our aims is to aid in the development of a sound commercial air transportation industry. Without guaranteed loan legislation carriers may acquire modern turbine-powered equipment on other than reasonable terms and conditions and this aim may be aborted as the carriers' financial condition may not improve to enable it to continue a modernization program for use not only to meet Defense needs but also to meet civil requirements.

We feel that guaranteed loan legislation would enable the acquisition of aircraft on reasonable terms and conditions, either by private financing or guarantee by the Government. We know there are carriers who have not used the Government's guarantee program as they were able to obtain financing from private



sources at favorable rates. However, we feel that most of the all-cargo carriers who are under contract to MATS and who are endeavoring to develop and expand their commercial cargo service are probably of a class that would be unable to obtain financing absent guaranteed loans at reasonable rates.

I would like to call the committee's attention to the fact that I have addressed myself mainly to the cargo capacity. With respect to S. 2815 without the Smathers amendment, while the Department of Defense interposes no objection to the enactment thereof, the Department does not have the same degree of interest as it would have in legislation authorizing guaranteed loans for the acquisition of modern turbine-powered cargo equipment.

I recognize that this has been a very brief statement of the Department of Defense interest, and I will be pleased to answer any questions the committee may have.

#### STATEMENT OF DELOS W. RENTZEL ON BEHALF OF SLICK AIRWAYS

Mr. Chairman and members of the committee, I appreciate the opportunity of appearing before your committee in support of the inclusion of all-cargo service as one of the categories covered by the guaranteed loan legislation now being considered by your committee.

Since 1954 I have been closely associated with Slick Airways, one of the Nation's pioneers of all-cargo service. At various times I have served as its president and chairman of the board. Presently I am a director and member of the executive committee. Prior to my association with Slick, as some of you may know, I spent a number of years in Government, serving as Chairman of the Civil Aeronautics Board and Under Secretary of Commerce for Transportation, among other positions.

I sincerely believe that the expansion of guaranteed loan coverage to include all-cargo equipment, as proposed by Senator Smathers, is urgently needed to achieve a successful air cargo industry in this country and the modern cargo airlift required by military logistics and national security in the event of an emergency.

#### LACK OF ADEQUATE EQUIPMENT HAS HAMPERED PROGRESS IN THE AIRFREIGHT INDUSTRY

Slick Airways is vitally interested in legislation which will promote the development and utilization of modern, efficient aircraft in the all-cargo industry. Slick is one of the original certificated all-cargo carriers and one of the leaders in the development of this service. During the period 1946-57, Slick transported close to one-half billion ton-miles of airfreight, nearly one-fifth the total airfreight carried by the entire domestic industry during that period. Despite severe losses, borne entirely by its stockholders, Slick continuously strove to promote all-cargo transportation on an efficient, economical basis. However, the unavailability of proper equipment for all-cargo operations proved a serious handicap in those efforts.

Slick Airways temporarily suspended common carrier airfreight service in 1958, but now has definite plans to resume that service later this year. Since our suspension, we have been involved in extensive contract airfreight operations for the Defense Department, both domestically and internationally. On May 4, 1962, the Civil Aeronautics Board announced its final decision and order to grant Slick a permanent certificate covering essentially the same route we served for many years. Pursuant to this decision, we intend to resume common carrier operations by October 1, 1962. This service will include certain novel features, notably a combined military contract and common carriage service over certain U.S. Navy quicktrans routes. Such a service should afford considerable benefits to both the military and commercial shippers, as well as being economic in nature.

Although Slick has already achieved part of its programed fleet modernization through the acquisition of the Canadian-manufactured CL-44D, further modernization is planned and is necessary for the contribution Slick expects to make in airfreight service. This additional modernization is necessarily contingent upon obtaining adequate financing, and guaranteed loan legislation is thus an important step in assuring the success of Slick's plans.

We feel that all those who are truly interested in the prompt and reasonable development of all-cargo transportation will support guaranteed loan legislation covering all-cargo equipment. In the past the all-cargo industry has been com-

pelled to accept for the most part hand-me-down equipment designed primarily for passenger service rather than freight service. The use of this inferior equipment in all-cargo operations resulted in high rates and a consequent slow growth of airfreight traffic. Air carriers were unable to tap the vast quantities of freight moving by surface means because to do so would require rates far below direct and indirect operating costs of the obsolete equipment the industry utilized. As a consequence, the airlines were unable to contribute modern long-range cargo aircraft to the civil reserve air fleet program.

Now, with the permanent status accorded the industry by the Civil Aeronautics Board and with modern cargo aircraft finally becoming available, the industry has the first real opportunity in its history to move forward and achieve its true place in the Nation's transportation picture. Now is clearly an excellent time for passage of guaranteed loan legislation, for the industry is well able to respond to the modernization stimulus such legislation would afford. Conversely, the absence of such legislation might well frustrate this opportunity for progress which is now at hand, since, as you know, these modern cargo aircraft are very expensive, and their financing is a difficult job even for large carriers, let alone relatively small carriers such as Slick and the other all-cargo airlines.

#### NEED FOR FINANCIAL STABILITY

Slick's planned fleet of CL-44D prop jets and the latest turboprop jets has and will require a substantial expenditure. To date, this modernization program has cost Slick in excess of \$11 million, and the total expenditure, including modern ground equipment, will probably ultimately run several times that figure. Other all-cargo carriers, who, with Slick, have pioneered the use of modern turbine-powered air cargo equipment, are facing similar expenditures.

In view of this tremendous cost, in contrast with the relatively small size of the carriers involved, the need for guaranteed loan legislation is readily apparent. The CL-44D purchase by Slick was facilitated by existing Canadian Government aircraft purchase loan legislation very similar to the legislation here under consideration, but comparable assistance is not available for purchases from domestic manufacturers, forcing the carriers to meet somewhat harsh requirements for financing. In the past, Slick has been compelled to pay interest rates of up to 15 percent on new capital. Such financing costs obviously represent a virtually insurmountable barrier to expansion plans. Financing should be available at a cost of not over 6 percent, on a reasonably long term basis, if the all-cargo industry is to develop properly. Slick believes that Government guarantee of loans for the purchase of modern cargo aircraft would be a major contribution toward obtaining this kind of financing. Such legislation would stimulate renewed lender confidence in the future of the airfreight industry, as it has done in the case of the local service industry, and would bring forth investment funds on much more reasonable terms than are presently available.

#### TYPE OF LEGISLATION REQUIRED

Legislation renewing the governmental guarantee with respect to local service carriers affords an excellent vehicle for affording similar needed financial strength to the airfreight industry. We support both renewal of the existing legislation, as proposed by S. 2815, and its amendment to include all-cargo service, as proposed by Senator Smathers. As in the case of local service carriers, the air cargo industry urgently requires financial stability to attract the capital to finance modernization and expansion of service. Surely, the development of a sound air cargo industry in this country, responsive to both commercial and military shipping needs, is as much in the national interest as the considerations which supported the passage and which support the renewal of local service guaranteed loan legislation.

Moreover, the local service legislation demonstrates that the concept of Government guarantee of such loans is sound, meets the needs of the carriers, and can be carried out without cost to the Government. As of last month, a total of 16 loans had been made under Public Law 85-307, without any cost to the Government whatever. These loans amounted to about \$40 million, with the guaranteed amount being about \$36 million, and they enabled the carriers involved to purchase some \$46,500,000 worth of new equipment. Three other loan applications are now pending before the Board. The guaranteed loan program has worked well with the local service industry, and it should work equally well with the all-cargo industry.



It should be noted that this type of encouragement for all-cargo air service is really quite limited in nature, when compared, for example, with the multitude of legislative provisions designed to encourage and protect this country's merchant marine, despite the fact that modern cargo airlift has at least an equal significance in the Nation's defense and overall transportation picture. In fact, Secretary McNamara recently testified before the House Merchant Marine Subcommittee that the Department of Defense now, in many instances, considers cargo and passenger airlift, where available, as less expensive and of considerably greater national defense value than sealift. "Hearings on Review of Merchant Marine Policy Before the Subcommittee on Merchant Marine, House Committee on Merchant Marine and Fisheries, April 18, 1962" (transcript, p. 135). For years Congress has found it in the best interests of national defense to provide the merchant marine with not only a form of guaranteed loan legislation but also with a large variety of subsidy-type benefits and other Government assistance. Surely, it is equally in the interest of national defense to provide guaranteed loan assistance to the unsubsidized all-cargo carriers to further their efforts to achieve vitally needed expansion of the Nation's cargo airlift resources.

In this connection, I would like to support the recommendation of the Civil Aeronautics Board that loan guarantees for cargo aircraft be made only for the purchase of turbine-powered equipment which would be made available to the Department of Defense in time of national emergency. This type of amendment will maximize the national defense value of the proposed legislation, while at the same time serving to underscore the significant national defense role played by cargo airlift and the Nation's all-cargo carriers. Moreover, it should be made clear in the legislation that the modern cargo airlift covered by guaranteed loans can be made available at all times for international and domestic military requirements, as well as for commercial scheduled service. The use of this equipment by the military obviously should not be limited solely to emergencies. At the same time, the all-cargo carriers should be afforded needed flexibility in meeting both their military and commercial cargo service commitments with the most modern cargo lift available. I would suggest that this policy be spelled out in the initial policy section of the renewed legislation, changing the last sentence thereof to read as follows:

"In furtherance of this policy it is deemed necessary and desirable that provision be made to assist certain air carriers engaged in such air transportation by providing governmental guarantees of loans to enable them to purchase aircraft suitable for such transportation *and for military cargo airlift operations on reasonable terms.*"

The phrase added to this sentence is italicized. This change should make it clear that the modern cargo equipment covered by the legislation can be utilized in providing both routine and emergency service for the Defense Department, as well as in meeting common carrier obligations.

Three additional changes in the local service guaranteed loan law appear to be necessary to accommodate it to the different characteristics of the airfreight field. Here the aircraft are much larger and much more expensive. Each one costs in excess of \$5 million, and the fleet needed adequately to serve a nationwide all-cargo route, as well as to provide the airlift reserve needed for national emergencies, could easily require at least \$25 million in financing. Accordingly, we recommend that, insofar as the all-cargo industry is concerned, a limit of \$25 million be imposed on the total amount of guaranteed loans outstanding to any one carrier. We believe this is a reasonable ceiling which should meet the needs of the carriers concerned, while at the same time affording the Government protection against overextension by individual carriers. Inasmuch as there are only a few certificated all-cargo carriers, the permitted total would still not be very large.

In view of the much greater cost and longer life of turbine-powered cargo aircraft, we would also recommend, insofar as the all-cargo industry is concerned, a minimum term of 10 years for loan repayment, as distinguished from the maximum term of 10 years contained in the present law.

Finally, we recommend that guaranteed loan legislation for all-cargo service include the guarantee of loans for the purchase of specialized components of a cargo airlift system. Modern cargo ground handling and related equipment is vitally needed to comprise a complete all-cargo service with modern flight equipment. This ground equipment is highly expensive, and much of it is still in the development stage. Yet without it, the reduction in costs and rates needed in this industry cannot be achieved. These new large turbine-powered aircraft

must be loaded quickly, by mechanized means, in order to achieve the maximum utilization and maximum economy of which they are capable. Accordingly, specialized components of a cargo airlift system are just as essential to the industry as the flight equipment itself. This interrelationship was recognized in previous all-cargo guaranteed loan legislation proposals and should be recognized in current legislation. In speaking of previous legislation, I am, of course, referring to S. 2774, introduced by Senator Monroney in the 2d session of the 86th Congress. This was a very fine bill which we wholeheartedly supported, and which should provide an excellent reference point for this committee's evaluation of the type of legislation needed.

#### CONCLUSION

The all-cargo industry needs immediate assurance of financial stability if it is to achieve its proper growth through modernization and expansion of service. This industry is not subsidized and the all-cargo carriers do not even possess subsidy eligibility. The past and present plight of the industry is attributable in large part to inability to obtain capital on reasonable terms to finance modernization programs such as that of Slick Airways which I have described. We accordingly strongly urge the inclusion of all-cargo service in renewed guaranteed loan legislation. We support the amendment proposed by Senator Smathers, with the several modifications I have discussed.

#### STATEMENT OF JOSEPH P. ADAMS, GENERAL COUNSEL, ASSOCIATION OF LOCAL TRANSPORT AIRLINES

Chairman Williams and distinguished members of the Transportation and Aeronautics Subcommittee of the House Interstate and Foreign Commerce Committee, it is a great pleasure and a privilege to appear before you advocating the extension and increased loan limits of the act of September 7, 1957, being Public Law 85-307.

It is appropriate to pause here and extend the heartiest congratulations and appreciation of the members of the Association of Local Transport Airlines<sup>1</sup> for the wonders you gentlemen wrought just 5 years ago when you actively participated in the enactment of H.R. 7993, introduced by your distinguished chairman of the House Interstate and Foreign Commerce Committee, the Honorable Oren Harris. The legislation approved by your subcommittee 5 years ago has been a triumphant success. It has brought financial stability to the operations of the short-haul air transport industry, and it has made it possible for the industry to mark up giant strides in revenue-passenger-miles each year since the passage of the legislation while the trunkline industry has been marking time in the same statistical field of passenger service.

Your foresight and aviation transportation expertise has made it possible for the member carriers of ALTA alone, to purchase 33 postwar turbopowered airplanes, 19 postwar piston-powered aircraft and all with Government-guaranteed loans of some \$35 million. Not one cent of this loan amount is in default.

Your responsiveness to the public conveniences and necessity needs of the smaller communities represented in your constituencies has resulted in literally millions of these passengers receiving service in postwar, pressurized, larger and more comfortable riding equipment. This new and improved service to the public has been made possible in 295 communities in 31 States.<sup>2</sup>

Not one of these cities or States could reasonably have expected to have received this improved air service without the benefits and the enactment of the Guaranteed Loan Act of 1957. This flat statement is unequivocally supported by reason of your wisdom in writing section 4 of the act of 1957, which reads—

"SEC. 4. No guaranty shall be made—

\* \* \* \* \*

<sup>1</sup> Alaska Airlines, Alaska Coastal-Ellis Airlines, Allegheny Airlines, Aloha Airlines, Bonanza Air Lines, Central Airlines, Cordova Airlines, Lake Central Airlines, North Central Airlines, Northern Consolidated Airlines, Ozark Air Lines, Pacific Airlines, Piedmont Airlines, Reeve Aleutian Airways, Southern Airways, West Coast Airlines, Wien Alaska Airlines.

<sup>2</sup> Alaska, Arizona, California, Colorado, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Ohio, Oregon, South Carolina, South Dakota, Tennessee, Utah, Virginia, West Virginia, Wisconsin, Wyoming, and the District of Columbia.



"(e) Unless the Board finds that, without such guaranty, in the amount thereof, the air carrier would be unable to obtain necessary funds for the purchase of needed aircraft on reasonable terms."

The Civil Aeronautics Board in administering the act and carrying out the "intent of Congress" prepared form CAB-411A for the application for loan guarantee and question 8 reads: "Would lender grant this loan, or a comparable loan, without guarantee by the Civil Aeronautics Board?"

No more specific or even legal evidence need be introduced to support the position that these millions of "Americans with a suitcase" were and are completely dependent on you distinguished members of this subcommittee and of course your colleagues for their ever-increasing aviation transportation needs and requirements.

The unqualified success of this public interest legislation marks a historic example of the "arm of Congress" concept, as applied to administrative agencies of the Government. This legislation was originally sponsored by the Civil Aeronautics Board, an arm of Congress, and then studied, amended, and passed by Congress.

The purpose of the legislation in 1957 was to enable the feeder and short-haul-type carrier to purchase equipment that would result in an economical and profitable operation, that would provide pressurized aircraft for passenger comfort, improve the attractiveness of the service to the public and to generate increased traffic.

That these objectives have been attained in the fullest sense is beyond dispute. The purpose of the legislation proposed in 1962 (H.R. 10129) is the same as that of 1957, and there is every reason to believe that its success when extended will match that of the past 5 years.

The Civil Aeronautics Board has made available to this committee a two-page detailed "Schedule of Guaranteed Loans," dated April 5, 1962, which is a complete up-to-date report of each loan made since the passage of the act in 1957. It would be repetitious to reoffer this document on behalf of ALTA although it is relied on to support most references to the success of the program made earlier in this statement or to follow.

Renewal of the act through its extension is necessary because the new equipment procured only through the operation of the act has been a major factor in enabling local service carriers to realize substantial traffic growth in a 5-year period when air traffic generally was realizing only restrictive growth. Between 1957 and the year ended June 30, 1961, local service commercial revenues doubled. The ability to acquire new equipment under the Guaranteed Loan Act was a significant if not the most important feature in this unusual growth record.

The committee report of 1957 stressed as one purpose of the legislation the necessity of making it possible for a carrier to obtain the funds for the purchase of aircraft on reasonable terms.

The words "on reasonable terms" are as significant today as they were 5 years ago. An example of the assistance given carriers in realizing such terms is best illustrated by the example of Bonanza Air Lines, an ALTA member carrier.

Bonanza Air Lines financed its original acquisition of F-27 turboprop equipment on a 10-year basis with interest rates of  $5\frac{1}{4}$  and 6 percent. Having exhausted the \$5 million guarantee available under the Guaranteed Loan Act of 1957 by reason of the \$5 million ceiling, the airline was required in 1961 to finance its ninth F-27 without the benefit of the act. In so doing, it was required to write off this latest loan in 5 years at a  $6\frac{1}{2}$ -percent rate. While an airline may be able to finance one-ninth of its equipment on a short-term basis with high interest rates, it cannot conduct an overall fleet modernization program on such unsatisfactory financial terms.

Renewal and extension of the terms of the Guaranteed Loan Act of 1957 is vitally important to provide the additional equipment that will be needed to carry the passengers now in sight. Aloha Airlines, Inc., an ALTA member carrier operating in the State of Hawaii, has prepared a study of its aircraft needs to include 1965 and it is indicative of the growing requirements of this dynamic industry.

Aloha has determined that the available seat-miles required by the carrier in 1965 will be approximately 143,200,000. The existing fleet of six F-27 aircraft can produce a capacity of 86,580,000 seat-miles, leaving an apparent deficiency of approximately 56,620,000 seat-miles. These are conservative figures and based on 6 aircraft with current utilization of 1,850 annual hours, current speed of 195 miles per hour and 40 available seats. The fact that Aloha Airlines had

a system load factor of 64 percent in 1961, the highest load factor achieved by any scheduled certificated U.S. airline, lends credence to the accuracy of the carrier's predictions.

Aloha Airlines' study could be duplicated and supported by the growth requirements reasonably to be anticipated by the 10 local service ALTA members and the 6 Alaskan carrier members.

The seat-miles required by Aloha Airlines in the immediate 5-year period cannot be provided without the extension and renewal of the Guaranteed Loan Act of 1957.

The Association of Local Transport Airlines takes this opportunity to not only unqualifiedly recommend the renewal and extension of the Guaranteed Loan Act through the passage of H.R. 10129, but respectfully requests that Public Law 85-307 section 4(d) be amended to increase the present loan limitation ceiling from \$5 million to \$10 million.

Extension of the act with a dollar limit sufficient to embrace future technological improvements, will insure the ability of this industry to obtain the amount and type of equipment needed to meet its public service requirements on reasonable terms.

The following statistics descriptive of all phases of short-haul air transport operations which dictate aircraft needs of the local-service carriers are purposefully offered for the exact 5-year period during which the Guaranteed Loan Act of 1957 has been in full force and effect.

EXHIBIT A.—Local carrier operating data indexes

	3d quarter, 1957	3d quarter, 1961	Ratio (1957=1)
Revenue-miles.....	18,492,000	27,571,000	1.49
Enplaned passengers.....	1,196,813	1,849,864	1.55
Revenue passenger-mile.....	216,388,000	364,729,000	1.69
Revenue ton-mile.....	22,128,000	38,004,000	1.72
Available ton-miles.....	50,200,000	87,682,000	1.75
Available seat-miles.....	457,230,000	869,102,000	1.90
Number of employees.....	8,507	13,403	1.58

EXHIBIT B.—Local carrier revenue and expense indexes

	3d quarter, 1957	3d quarter, 1961	Ratio (1957=1)
Total passenger revenue.....	\$13,476,970	\$27,750,211	2.06
Total nonmail revenue.....	14,523,617	29,864,907	2.06
Total operating expense.....	21,398,942	43,134,829	2.01
Break-even need.....	6,875,326	13,209,922	1.93

EXHIBIT C.—Local carrier fleet cost indexes

	3d quarter, 1957	3d quarter, 1961	Ratio (1957=1)
Number of aircraft.....	223	338	1.52
Total fleet costs.....	\$31,780,000	\$91,793,000	2.89
Depreciated value.....	\$15,668,000	\$62,330,000	3.98
Total ground equipment costs.....	\$6,356,000	\$13,012,000	2.05
Depreciated value.....	\$2,899,000	\$6,371,000	2.20

The individual managements of the ALTA member carriers believe, and I state to you with my fullest faith in their position, that this requested increase in the loan ceiling is a development inherent in the continued successful operation of the Guaranty Loan Act. The figures provided in the foregoing exhibits all indicate that in the 5-year period since the passage of the act, the requirement of the public for seats has doubled, needing more aircraft at almost tripled fleet costs.

ALTA requests your support for extended guaranteed loan legislation that will serve the same purpose as the 1957 act, operate in the same efficient manner as



the 1957 act, and provide the millions of short-haul transport passengers the same improvement in service as made possible under the 1957 act. To accomplish this same continued public benefit, the act need be amended only in the matter of the dollar amount of the loan ceiling, with no additional cost to the U.S. Government.

The Civil Aeronautics Board in testifying in support of the Guaranty Loan Act of 1957 estimated that on the basis of \$60 million of guaranteed loans amortized over a 10-year period, its expenses would be \$450,000 as against income from fees of \$1,500,000, a net return to the Government of approximately \$1 million.

Further, a failure to amend the 1957 act to increase the loan ceiling would find most of the presently qualified carriers under the Guaranty Loan Act of 1957 ineligible to receive a loan under the extended act during its lifetime. This unsatisfactory situation is determined by an analysis of the current CAB loan schedule which indicates that 10 of the loans are presently for 10 years, 5 are for 7 years, and 1 of 5 years. Applying this loan schedule to an extension of the act for 5 years at the present \$5 million ceiling would make it impossible for the majority of the carriers presently included in the legislation to contract for a loan in addition to their present commitment, regardless of the passengers who may be waiting at the gates at several hundred small city airports.

The Guaranty Loan Act of 1957 has proven an unqualified success.

The Association of Local Transport Airlines respectfully requests its extension by the passage of H.R. 10129, amended to increase the debt ceiling from \$5 to \$10 million for the reasons offered at this hearing. The opportunity to participate in this hearing is sincerely appreciated.

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STATEMENT OF GERALD P. O'GRADY, GENERAL COUNSEL, PACIFIC NORTHERN AIRLINES, INC.

My name is Gerald P. O'Grady. I am general counsel of Pacific Northern Airlines, Inc., a certificated airline operating between points within the State of Alaska and between points in the State of Alaska and Portland, Oreg., and Seattle-Tacoma, Wash.

Pacific Northern Airlines, Inc., endorses the proposed legislation embodied in H.R. 10129, which would have the effect of renewing the provisions of Public Law 85-307, authorizing the guarantee of loans to certain airlines for the purchase of modern aircraft. Pacific Northern Airlines is one of the carriers which qualifies for the benefits of the existing and presumably the proposed legislation. Last fall, Pacific Northern Airlines was able to obtain from the Civil Aeronautics Board, pursuant to the legislation then in effect, a guarantee of a loan obtained from a group of banks for the purchase of one Boeing model 720 jet aircraft, representing a total investment of approximately \$4,250,000. At the same time, the company was able to obtain additional unguaranteed financing for the purchase of a second aircraft of the same type. Delivery of the two aircraft was obtained in March and April, and the two aircraft are now in service on the company's routes.

It now appears that within the next few years, Pacific Northern Airlines may well need an additional aircraft of the same type, if business develops as expected. We do not believe that it will be possible to obtain financing for the purchase of a third Boeing model 720 aircraft without the assistance of a Government guarantee. Yet, such a guarantee would not be available under the terms of Public Law 85-307, if the same were extended unchanged for a period of 5 years, because of the \$5 million limitation therein on the amount of guarantees available for loans to a single carrier. In short, Pacific Northern Airlines has already used up the total amount of the loan guarantee available to it. For this reason, Pacific Northern Airlines strongly endorses the suggestions which have been made by other witnesses that the maximum limitation on the amount of loans to a single carrier which may be guaranteed by the Civil Aeronautics Board be substantially increased. Although it now appears that a limit of \$10 million on guaranteed loans to a single carrier might satisfy the company's requirements, Pacific Northern Airlines believes that an even higher limit would be practicable. The provisions of section 4 of the act provide sufficient protection to the Government against the assumption of unreasonable risks in issuing such guarantees. We must assume that the Civil Aeronautics Board, in ex-

exercising its power under this legislation, will not guarantee loans for the purchase of aircraft which are not needed or which are unsuitable for use by the carrier concerned. If the Board should find that a guarantee of loans in the amount of \$15 million to a single carrier is necessary and desirable in order to promote the development of aviation, it should have the authority to guarantee loans in that amount.

It must be remembered that new aircraft are becoming more and more expensive with the passage of time. At the same time, financing for the beneficiaries of the legislation in question is much more difficult to obtain than financing for the larger trunkline carriers. If these smaller carriers are to continue their development and ultimately attain subsidy-free status, they must have assistance from the Government in the form of the proposed legislation. In this connection, it is noteworthy that Pacific Northern Airlines and the Civil Aeronautics Board both expect that the operation of the two Boeing 720 aircraft, one of which was purchased with the guaranteed loan, will enable Pacific Northern Airlines to achieve subsidy-free status by 1965. The Board has already issued an order fixing future mail rates for the company on a declining basis, which will result in the complete elimination of subsidy by May 1965. If renewal of this legislation with higher limits can have such salutary results for Pacific Northern Airlines and other affected carriers, then it certainly should be continued in effect for the foreseeable future.

Mr. WILLIAMS. The committee will stand adjourned.

(Whereupon, at 3:50 p.m., Thursday, May 10, 1962, the subcommittee adjourned.)





